

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Marquette, Michigan	County Marquette
Fiscal Year End 6-30-06	Opinion Date 12-08-06	Date Audit Report Submitted to State 12-29-06	

We affirm that:

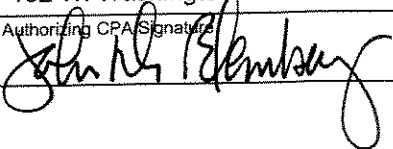
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- Check each applicable box below.** (See instructions for further detail.)
- | | YES | NO | |
|-----|-------------------------------------|-------------------------------------|---|
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Compliance letter	
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-225-1166	
Street Address 102 W. Washington Street - Suite 109		City Marquette	State MI
Authorizing CPA Signature 		Printed Name John W. Blumberg, CPA	Zip 49855
		License Number 10180	

City of Marquette, Michigan
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

City of Marquette, Michigan

Comprehensive Annual Financial Statement

Fiscal Year Ended June 30, 2006

City Commission
Tony Tollefson, Mayor

Mike Coyne
Joseph Lavey
Dan Dallas
Beth Linna
John DePetro
Tom Tourville

City Manager
Judy Akkala

Prepared By
Finance and Accounting Department

Finance Director
Gary Simpson

City of Marquette
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

INTRODUCTORY SECTION

Table of Contents.....	3
Transmittal Letter.....	10
Certificate of Achievement for Excellence in Financial Reporting	16
Organizational Chart.....	17
Administrative Staff.....	18

FINANCIAL SECTION

Independent Auditors' Report.....	19
Management's Discussion and Analysis.....	21

SECTION 1 – BASIC FINANCIAL STATEMENTS:

Government-wide Financial Statements:

Statement of Net Assets	32
Statement of Activities	33

Fund Financial Statements:

Governmental Funds Balance Sheet.....	34
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	35
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance	36
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	37

Continued --

General Fund Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	38
Major Special Revenue Funds Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	39
Proprietary Funds Statement of Net Assets	40
Proprietary Funds Statement of Revenues, Expenses and Changes in Net Assets	41
Proprietary Funds Statement of Cash Flows.....	42
Fiduciary Funds Statement of Fiduciary Net Assets.....	43
Fiduciary Funds Statement of Changes in Fiduciary Net Assets	44
Component Units Combining Statement of Net Assets.....	45
Component Units Combining Statement of Activities	46
Notes to Financial Statements	47

SECTION 2 – REQUIRED SUPPLEMENTARY INFORMATION:

Municipal Employees Retirement System of Michigan: Defined Benefit Pension Plan Analysis of Funding Information.....	88
Fire-Police Retirement System: Analysis of Funding Information	89
Marquette Board of Light and Power: Municipal Employees Retirement System of Michigan: Defined Benefit Pension Plan Analysis of Funding Information	90

SECTION 3 – MAJOR GOVERNMENTAL FUNDS:

General Fund: Comparative Balance Sheet	92
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	93
Major Street and Trunkline Fund: Comparative Balance Sheet	100
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	101

Continued --

Local Street Fund:	
Comparative Balance Sheet	102
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	103

Construction Fund:	
Comparative Balance Sheet	104
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	105

SECTION 4 – NONMAJOR GOVERNMENTAL FUNDS:

Nonmajor Governmental Funds:	
Combining Balance Sheet.....	108
Combining Statement of Revenues, Expenditures and Changes in Fund Balance.....	109

Nonmajor Special Revenue Funds:	
Combining Balance Sheet.....	110
Combining Statement of Revenues, Expenditures and Changes in Fund Balance.....	111

Environmental Protection Fund:	
Comparative Balance Sheet	112
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	113

Criminal Justice Training Fund:	
Comparative Balance Sheet	114
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	115

MSHDA Downtown Rental Fund:	
Comparative Balance Sheet	116
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	117

MSHDA Homeowner Repair Fund:	
Comparative Balance Sheet	118
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	119

Lakeview Arena Fund:	
Comparative Balance Sheet	120
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	121

Continued --

Nonmajor Debt Service Funds:	
Combining Balance Sheet.....	122
Combining Statement of Revenues, Expenditures and Changes in Fund Balance.....	123
1998 Building Authority Municipal Service Center – Debt Service Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balance –	
Budget and Actual	124
1998 Building Authority Lakeview Arena – Debt Service Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balance –	
Budget and Actual	125
2003 Founders Landing – Debt Service Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balance –	
Budget and Actual	126
2004 Spring Street – Debt Service Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balance –	
Budget and Actual	127
Forestland – Debt Service Fund:	
Comparative Balance Sheet	128
Schedule of Revenues, Expenditures and Changes in Fund Balance –	
Budget and Actual	129
Cemetery Fund:	
Comparative Balance Sheet	130
Schedule of Revenues, Expenditures and Changes in Fund Balance –	
Budget and Actual.....	131

SECTION 5 – ENTERPRISE FUNDS:

Nonmajor Enterprise Funds:	
Combining Statement of Net Assets.....	133
Combining Statement of Revenues, Expenses and Changes in Net Assets.....	134
Combining Statement of Cash Flows	135
Marina Fund:	
Comparative Statement of Net Assets	136
Schedule of Revenues, Expenses and Changes in Net Assets –	
Budget and Actual.....	137
Intermodal Transportation Terminal Fund:	
Comparative Statement of Net Assets	138
Schedule of Revenues, Expenses and Changes in Net Assets –	
Budget and Actual.....	139

Continued --

Major Enterprise Funds:

Water Supply and Sewage Disposal Fund:

Comparative Statement of Net Assets	140
Schedule of Changes in Revenues, Expenses and Changes in Net Assets – Budget and Actual.....	141

Stormwater Utility Fund:

Comparative Statement of Net Assets	143
Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual.....	144

SECTION 6 – INTERNAL SERVICE FUNDS:

Combining Statement of Net Assets.....	146
Combining Statement of Revenues, Expenses and Changes in Net Assets	147
Combining Statement of Cash Flows	148

Motor Vehicle Equipment Fund:

Comparative Statement of Net Assets	149
Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual	150

Municipal Service Center Fund:

Comparative Statement of Net Assets	151
Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual	152

SECTION 7 - FIDUCIARY FUNDS:

Special Activities Private-Purpose Trust Fund:

Comparative Statement of Fiduciary Net Assets	154
---	-----

Fire-Police Retirement System Pension Trust Fund:

Comparative Statement of Plan Net Assets	155
--	-----

Agency Fund:

Comparative Balance Sheet	156
Statement of Changes in Assets and Liabilities.....	157

SECTION 8 – CAPITAL ASSET SCHEDULES:

Schedule of Capital Assets Used in the Operation of

Governmental Funds – By Source	159
--------------------------------------	-----

Schedule of Capital Assets Used in the Operation of

Governmental Funds – By Function and Activity	160
---	-----

Schedule of Changes in Capital Assets Used in the Operation of

Governmental Funds – By Function and Activity	161
---	-----

Continued --

SECTION 9 – LONG-TERM DEBT SCHEDULES:

Schedule of Bonds, Notes Payable, and Capitalized Lease Obligations	
Payable – Enterprise Funds.....	163
Notes to Schedule of Bonds, Notes Payable, and Capitalized Lease Obligations	
Payable – Enterprise Funds.....	164
Schedule of Bonds Payable – Component Unit – Board of Light and Power, Electric Utility Fund	165

SECTION 10 – COMPONENT UNITS:

Board of Light and Power Electric Utility Fund:	
Comparative Statement of Net Assets	167
Schedule of Revenues, Expenses and Changes in Net Assets	168
Statement of Cash Flows	169
 Peter White Public Library:	
Statement of Net Assets	170
Statement of Activities.....	171
Governmental Funds Balance Sheet	172
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	173
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance.....	174
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	175
 Nonmajor Component Units:	
Combining Statement of Net Assets.....	176
Combining Statement of Activities.....	177
 Downtown Development Authority:	
Statement of Net Assets	178
Statement of Activities.....	179
Governmental Funds Balance Sheet	180
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	181
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance.....	182
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	183
 Marquette Housing Commission:	
Statement of Net Assets	184
Statement of Activities.....	185
Statement of Revenues, Expenses and Changes in Net Assets.....	186
Statement of Cash Flows	187

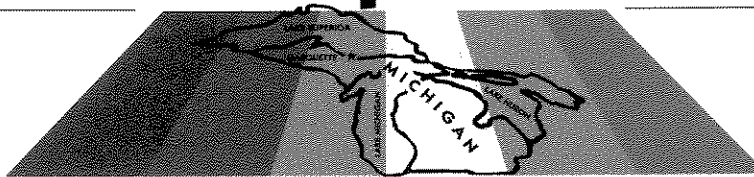
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STATISTICAL SECTION

SECTION 11 – STATISTICAL INFORMATION:

Net Assets by Component – Table 1	189
Changes in Net Assets – Table 2	190
Fund Balances, Governmental Funds – Table 3	192
Changes in Fund Balance, Governmental Funds – Table 4.....	193
Governmental Expenditures by Functions – Table 5.....	194
General Revenues by Sources – Table 6	195
Assessed Value and Actual Value of Taxable Property – Table 7	196
Direct and Overlapping Property Tax Rates – Table 8.....	197
Principal Tax Payers – Table 9	198
Property Tax Levies and Collections – Table 10.....	199
Ratio of Outstanding Debt by Type – Table 11	200
Ratio of General Bonded Debt Outstanding – Table 12.....	201
Direct and Overlapping Government Activities Debt – Table 13	202
Legal Debt Margin – Table 14.....	203
Pledged-Revenue Coverage – Table 15.....	204
Demographic & Economic Statistics – Table 16.....	206
Principal Employers – Table 17	207
Full-Time Equivalent City Government Employees by Function/Program – Table 18	208
Operating Indicators by Function/Program – Table 19	209
Capital Assets Statistics by Function/Program – Table 20.....	210

Marquette



the Superior location

December 8, 2006

Honorable Mayor, Members of the City Commission,
And the Citizens of Marquette, Michigan

Ladies and Gentlemen:

The Comprehensive Annual Financial Report (CAFR) of the City of Marquette, Michigan for the fiscal year ended June 30, 2006, is hereby submitted in accordance with Section 8.9 of the City Charter, State and Federal statutes. The City Charter and statutes require that the City of Marquette, Michigan issue an annual report on its financial position and activity and that this report be audited by an independent firm of certified public accountants. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. We believe the data as presented is accurate in all material aspects, that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial activity have been included.

To provide a reasonable basis for making these representations, the City's management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our belief, this financial report is complete and reliable in all material respects.

REPORTING ENTITY

The financial reporting entity (the City) includes all the funds of the primary government (i.e., City of Marquette, Michigan as legally defined), as well as all of its component units. The criterion used in determining the reporting entity is in accordance with Statement #14 by the Governmental Accounting Standards Board (GASB). Component units are legally separate entities for which the primary government is financially accountable. Blended component units (although legally separate entities) are, in substance, part of the primary government's operations and are included (blended) as part of the primary government. The City of Marquette Building Authority is included as a blended component unit

because its sole purpose is to finance and construct the City's public buildings. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government. The City of Marquette Board of Light and Power, the City of Marquette Downtown Development Authority, the Marquette Housing Commission, and the Peter White Public Library are reported as discretely presented component units in this CAFR.

CITY PROFILE

The City of Marquette is the county seat of Marquette County and is the largest community in Michigan's Upper Peninsula. The county contains the largest land mass out of all Michigan counties, encompassing 1,878 square miles. The City is located on the south shore of Lake Superior and is one of the oldest communities in Michigan's Upper Peninsula. Founded in 1849 with the discovery of high grade iron ore, the City has been a major port for shipping for more than 100 years. It was incorporated as a village in 1859 and as a city in 1871 under the provision of Act 279, PS 1909, as amended (Home Rule City Act).

The City provides a full range of municipal activities including: executive, elections, general services, administration, law enforcement, fire protection, protective inspection, public parks and recreation, cultural, conservation of natural resources, planning, and other functions. In addition, the City maintains four enterprise funds providing water and sewer utilities, marina services, transportation rental services, and stormwater management.

The City of Marquette is organized under the Commission-Manager form of government. The Commission consists of seven members, elected at large, who are residents of the City and qualified to vote under the constitution and laws of the State of Michigan. The members of the Commission are elected to serve staggered terms of three years with a maximum of six consecutive years. The Mayor and Mayor Pro-Tem of the City are elected annually from amongst the Commission members. The Commission appoints the City Manager and the City Attorney. All other administrative appointments are the responsibility of the City Manager.

ECONOMIC CONDITIONS AND OUTLOOK

With a stable population of approximately 20,000 residents and affordable living, the City remains in good financial condition, as is demonstrated by the financial statements and schedules included in this report. The City's major employers, Northern Michigan University and Marquette General Hospital, continue to help strengthen the area economy. NMU is increasing enrollment to near record levels and MGH continues to expand which should help bring more jobs and spending to the local economy. The area's timber operations are self-sustaining and continue to provide employment and pump money into the local economy and the iron ore mines continue operations after a brief close down in the summer of 2001. The City still has room to expand in its industrial park and interest appears to be picking up in potential companies desiring to locate there. These additions will add more jobs, more spending, and added property tax base to the local economy.

The City also continues to benefit economically as a popular recreation and vacation spot as there are plenty of both summer and winter recreational activities. This past summer saw the continuation of Cruise Ships visiting the City as a regular stop on tours of the Great Lakes which will provide even greater opportunities to pump more money into the local economy. Also, through its Downtown Development Authority, the City continues to work with the downtown merchants and provide opportunities for attracting more visitors to Marquette's downtown shopping district. Current projects include adding a linear park with an out-door ice skating rink in the downtown area and to continue to strongly support the festivals which bring in several thousands of visitors to the City each year.

Marquette continues to provide a quality of life that is difficult to match anywhere in the country. Our leadership continues to guide the future of Marquette with a proactive, visionary approach and an appreciation for cooperation and teamwork. Nearly 160 community volunteers serve on the City's 24 boards, committees, and commissions. The City will prosper and continue to be a "Superior Location" with open government leadership, a strong education system, an active business community and spirited citizen involvement.

FY 2006 INITIATIVES

Some of the major themes which guided projects and initiatives for FY 2006 were as follows:

- Infrastructure Repairs, Replacements and Improvements
- Equipment and Technology Replacements and Improvements
- Development of the Founders Landing (formerly South Rail Yard) Property

In accordance with these themes, the following was accomplished in FY 2006:

- ✓ Stormwater Drainage Improvements - \$766,187
- ✓ Water/Sewer System Improvements - \$3,322,562
- ✓ Street/Road Reconstruction - \$2,402,426
- ✓ Technology and Vehicle Replacements - \$701,129
- ✓ Founders Landing Construction - \$1,017,506

PLANNING FOR THE FUTURE

Key components of the City Commission Strategic Plan for FY 2006 were:

- ⇒ Develop our Master Plan to incorporate our vision concepts.
- ⇒ Maintain our leadership role in infrastructure development and improvements.
- ⇒ Continue to foster regionalism.

#1) Develop our Master Plan to incorporate our vision concepts.

- Develop a vision using the vision concepts collected from area residents, boards, committees, and commissions.
- Waterfront Plan from Hawley Street to the City Limits.
- Other issues to be addressed are: Street Projects, Founders Landing Development, Iron Bay Business Park, Shoreline Erosion, Trail System (motorized and non motorized), and Pilings Re-use.

#2) Maintain our leadership role in infrastructure development and improvements.

- Undertake major and local street reconstruction projects.
- Work toward having overhead utilities converted to underground.
- Begin planning for the Upgrade of the Wastewater Treatment Plant.
- Evaluate clearing the median of utilities, signs, and trees during major street reconstruction and renovation projects.
- Conduct an over all evaluation of park facilities and uses for best utilization.

#3) Continue to foster regionalism.

- Partner with others to complete a demographic assessment.
- Continue to address senior and recreation issues from a regional perspective.

Plans beyond FY 2006 will continue to emphasize the major themes of aggressive infrastructure improvement, technology enhancement, and maintenance of currently operating facilities with an even stronger emphasis on the waterfront and downtown areas.

OTHER FINANCIAL INFORMATION

Risk Management – The objective of risk management is to provide maximum quality protection to the City's assets, employees and the public at the lowest possible cost. Various risk control techniques, including employee accident prevention training, have been implemented to minimize accident-related losses. The City is constantly evaluating its risk management practices seeking to improve its safety and loss control functions, insurance placement, and financing practices.

As of July 1, 1997 the City of Marquette initiated a comprehensive risk management program with the Michigan Municipal Liability & Property Pool for general liability, public official's errors and omissions, police professional liability, personal injury and broadcaster liability, and automotive liability insurance. The Michigan Municipal Liability Workmen's Compensation Pool is used for employee injury claims. Both of these are risk sharing pools whereby member premiums are used to pay member claims in excess of deductibles and to purchase commercial excess insurance coverage.

Cash Management – Pursuant to the cash management policy of the City, cash temporarily idle during the year was invested in those investments authorized by law and included certificates of deposit, demand savings accounts, and securities sold by the United States government or its agencies and State approved municipal trust funds. The City invests all funds' cash, with maturities planned to coincide with cash needs utilizing the pooled cash concept whenever possible. Any cash available for longer term investing is reviewed by the Investment Advisory Board which meets quarterly. The Board of Light and Power Electric Utility Fund has separate cash management and investing practices apart from all other City funds. The operations of the Light and Power Utility are administered by an elected Board.

The City of Marquette's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Detailed information is presented in Footnote B, which classifies levels of risk for deposits and investments.

Pension Benefits – The City provides retirement benefits to its employees through one of three different plans. The Pension Funded Ratio (PFR) of the Actuarial Accrued Liability measures the progress of the systems in accumulating benefits when due.

Qualified employees of the Fire and Police Departments are included in a single-employer public employee retirement system under the guidelines of Public Act 345 and is accounted for as a Pension Trust Fund. As of December 31, 2005, this plan had a PFR of 100%, down from the December 31, 2004 PFR of 110%.

Qualified Senior and Middle Management employees are included in a defined contribution plan. This plan had no unfunded liabilities as of December 31, 2004.

All other qualified employees are included in an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. As of December 31, 2005, this plan had a PFR of 77%, down from the PFR of 85% of December 31, 2004.

OTHER INFORMATION

Independent Audit – The City Charter requires an annual audit of the accounts, financial records, and transactions of all administrative departments of the City by an independent certified public accountant selected by the City Commission. This requirement has been completed and the independent auditor's report has been included in this report.

Awards – The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Marquette, Michigan for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This is the 20th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.


Other awards recently presented to the City include: All American City designation for Marquette County, Cool City designation from the Governor, Governor's Council on Physical Fitness, Health and Sports for Level 3 Promoting Active Communities, Tree City USA from the National Arbor Day Foundation for the past twenty-one consecutive years, Excellence in Storage from the Salt Institute for the last ten consecutive years, USEPA Region 5 Award of Excellence to the Marquette Area Wastewater Treatment Facility in 1996 and 2001, Eminent Conceptor Award and Grand Award from American Consulting Engineers Council for Excellence in Engineering for the Water Filtration Plant in 1998, Honor Award from American Academy of Environmental Engineers for Excellence in Engineering for the Water Filtration Plant in 1998, Public Awareness Award from Michigan Section AWWA in 1998, One of the

best places to live and bike from Bike Magazine, named among The 100 Best Small Art Towns in America, and the Governor's Award for the Arts and Culture Center in 2004.


Acknowledgments – Special recognition must be extended to members of the Finance Department who assisted with the development of the Comprehensive Annual Financial Report and annual independent audit. We wish to express our appreciation to all members of the City's departments and the accounting firm of Anderson, Tackman and Company, PLC, who contributed to this preparation.

We would also like to thank the members of the Marquette City Commission for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Judy Akkala
City Manager



Gary W. Simpson
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Marquette
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



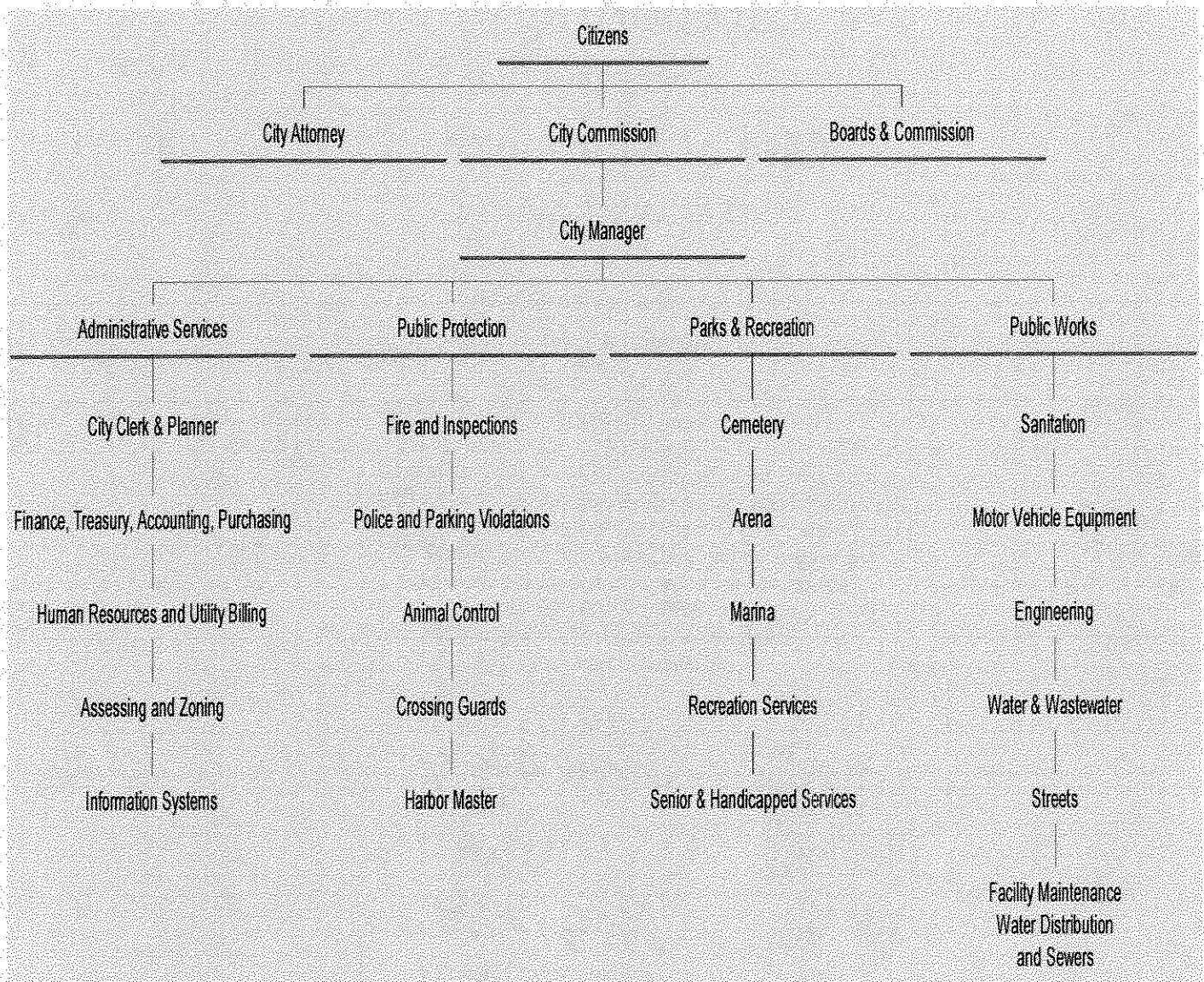
Carla E. Perry

President

Jeffrey R. Emmer

Executive Director

City of Marquette Organizational Chart



CITY OF MARQUETTE, MICHIGAN
ADMINISTRATIVE STAFF

City Manager	Judy Akkala
Assistant City Manager	Karl Zueger
City Attorney	Ron Keefe
Finance Director	Gary Simpson
City Assessor	Sue Tillison
City Clerk	Dave Bleau
City Engineer	Keith Whittington
Assistant City Engineer	Vacant at Present
City Treasurer	Diane Giddens
Information Systems Director	Alan Hawker
Police Chief	Philip Siegert
Fire Chief	Thomas Belt
Library Director	Pamela Christensen
Light and Power Utility Director	Kirby Juntilla
Superintendent of Public Works	Scott Cambensy
Superintendent of Water and Wastewater	Curt Goodman
Human Resources Manager	Susan Bohor
Arts and Culture Administrator	Nikke Nason



Anderson, Tackman & Company, PLC
Certified Public Accountants
Marquette, Michigan 906-225-1166

Partners

John W. Blemberg, CPA

Robert J. Downs, CPA, CVA

Daniel E. Bianchi, CPA

INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of the City
Commission and the City Manager of the
City of Marquette, Michigan

We have audited the financial statements of the governmental activities, business-type activities, discretely presented component units, major funds, and remaining fund information, which collectively comprise the basic financial statements of the City of Marquette, Michigan as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Board of Light and Power, a component unit of the City, which represents 79 percent and 88 percent of the assets and revenues of the component unit column. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Board of Light and Power, is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the report of the other auditors, provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, discretely presented component units, major funds and remaining fund information of the City of Marquette, Michigan at June 30, 2006, and the changes in financial position and cash flows, where applicable, of those activities and funds and the budgetary comparison for the general fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 21 through 30 and the Analysis of Funding Progress on pages 88 through 90 are not required parts of the basic financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor, Members of the City
Commission and the City Manager of the
City of Marquette, Michigan

In accordance with *Government Auditing Standards*, we have also issued a separate report to management dated December 8, 2006 on our consideration of the City of Marquette, Michigan's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the City of Marquette, Michigan's basic financial statements taken as a whole. The combining and individual fund statements and schedules as listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the City of Marquette, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

December 8, 2006

City of Marquette, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the City of Marquette's financial performance provides an overview of the City's financial activities for the year ended June 30, 2006. Please read it in conjunction with the financial statements, which begin on page 32.

FINANCIAL HIGHLIGHTS

- Net assets for the City as a whole increased by \$3,297,465 as a result of this year's operations. Net assets of our business-type activities increased by \$448,561, or 1.15%, and net assets of our governmental activities increased by \$2,848,904, or 7.03%.
- During the year, the City had expenses for governmental activities that were \$8,440,742 more than the \$10,541,913 generated in program revenues and other program sources.
- The City's business-type activities had expenses that were \$716,108 more than the \$6,949,416 generated in revenues and other sources.
- The general fund reported a net change in fund balance of \$225,309. This is \$225,309 higher than the forecasted increase/(decrease) of \$0.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 32 and 33) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 34. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for the future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 23. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's patron base and the condition of the City's capital assets, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

- *Governmental activities* – Most of the City’s basic services are reported here, including the police, fire, public works and parks departments, and general administration. Property taxes, charges for services and state sources fund most of these activities.
- *Business-type activities* – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City’s water and sewer system, stormwater, marina and transportation center activities are reported here.
- *Component units* – The City includes four separate legal entities in its report – the Board of Light and Power, the Peter White Public Library, the Downtown Development Authority, and the Marquette Housing Commission. Although legally separate, these “component units” are important because the City is financially accountable for them.

Reporting the City’s Most Significant Funds

Our analysis of the City’s major funds begins on page 28. The fund financial statements begin on page 34 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using taxes, grants, and other money. The City’s two kinds of funds - *governmental* and *proprietary* - use different accounting approaches.

- *Governmental funds* – Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the City’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between *governmental activities* (reported in the Statement of Net Assets and Statement of Activities) and *governmental funds* in a reconciliation which follows the fund financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City’s enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City’s other programs and activities – such as the Motor Vehicle Equipment Fund.

The City as Trustee

The City is the trustee, or fiduciary, for its Fire-Police Retirement System pension plan. It is also responsible for other assets that – because of a trust arrangement – can be used only for the trust beneficiaries. All of the City’s fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary

Net Assets on pages 43 and 44. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The City as a Whole

Table I provides a summary of the City's net assets as of June 30, 2006 and 2005.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$17,286,638	\$15,397,954	\$2,669,076	\$6,083,915	\$19,955,714	\$21,481,869
Capital assets, net	<u>49,061,088</u>	<u>49,340,319</u>	<u>47,459,073</u>	<u>45,030,443</u>	<u>96,820,161</u>	<u>94,370,762</u>
Total Assets	<u>66,347,726</u>	<u>64,738,273</u>	<u>50,428,149</u>	<u>51,114,358</u>	<u>116,775,875</u>	<u>115,852,631</u>
Current liabilities	10,358,733	10,644,101	1,991,874	1,920,021	12,350,607	12,564,122
Noncurrent liabilities	<u>15,438,069</u>	<u>16,392,152</u>	<u>8,886,853</u>	<u>10,093,476</u>	<u>24,324,922</u>	<u>26,485,628</u>
Total Liabilities	<u>25,796,802</u>	<u>27,036,253</u>	<u>10,878,727</u>	<u>12,013,497</u>	<u>36,675,529</u>	<u>39,049,750</u>
Net Assets:						
Invested in capital assets, net of related debt	32,827,042	32,280,284	32,258,682	28,448,328	65,085,724	60,728,612
Restricted	548,317	528,637	1,951,234	1,929,883	2,499,551	2,458,520
Unrestricted	<u>7,175,565</u>	<u>4,893,099</u>	<u>5,339,506</u>	<u>8,722,650</u>	<u>12,515,071</u>	<u>13,615,749</u>
Total Net Assets	<u>\$40,550,924</u>	<u>\$37,702,020</u>	<u>\$39,549,422</u>	<u>\$39,100,861</u>	<u>\$80,100,346</u>	<u>\$76,802,881</u>

Net assets of the City's governmental activities stood at \$40,550,924. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$7,175,565.

The \$7,175,565 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The net assets of our business-type activities stood at \$39,549,422. The City can generally only use these net assets to finance continuing operations of the water and sewer and other enterprise operations.

The results of this year's operations for the City as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues:						
Charges for services	\$4,448,681	\$5,677,922	\$6,941,416	\$6,698,805	\$11,390,097	\$12,376,727
Operating grants and contributions	5,446,027	2,185,688	9,000	173,320	5,455,027	2,359,008
Capital grants and contributions	647,205	265,770	-	-	647,205	265,770
General revenues:						
Property taxes	9,509,085	8,359,729	-	-	9,509,085	8,359,729
Unrestricted state sources	2,234,285	2,185,248	-	-	2,234,285	2,185,248
Investment earnings	255,506	88,521	230,576	233,480	486,082	322,001
Miscellaneous	<u>133,747</u>	<u>69,510</u>	<u>91,116</u>	<u>-</u>	<u>224,863</u>	<u>69,510</u>
Total Revenues	<u>22,674,536</u>	<u>18,832,388</u>	<u>7,272,108</u>	<u>7,105,605</u>	<u>29,946,644</u>	<u>25,937,993</u>
Program Expenses:						
General Government	2,994,081	2,919,314	-	-	2,994,081	2,919,314
Public health and safety	4,919,863	4,680,206	-	-	4,919,863	4,680,206
Public works	3,546,425	2,843,875	-	-	3,546,425	2,843,875
Highways and streets	1,738,087	2,582,962	-	-	1,738,087	2,582,962

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Social services	\$511,948	\$503,334	\$-	\$-	\$511,948	\$503,334
Sanitation	1,210,914	1,528,524	-	-	1,210,914	1,528,524
Recreation and culture	1,302,717	1,316,150	-	-	1,302,717	1,316,150
Interest on long-term debt	845,767	504,304	-	-	845,767	504,304
Depreciation - unallocated	1,912,853	1,953,676	-	-	1,912,853	1,953,676
Water supply and sewage disposal	-	-	6,339,831	5,895,101	6,339,831	5,895,101
Stormwater utility	-	-	866,257	680,791	866,257	680,791
Marina	-	-	374,433	364,786	374,433	364,786
Intermodal transportation terminal	-	-	86,003	156,177	86,003	156,177
Total Expenses	<u>18,982,655</u>	<u>18,832,345</u>	<u>7,666,524</u>	<u>7,096,855</u>	<u>26,649,179</u>	<u>25,929,200</u>
Excess (deficiency) before transfers and extraordinary item	3,691,881	43	(394,416)	8,750	3,297,465	8,793
Transfers	(842,977)	(420,516)	842,977	420,516	-	-
Extraordinary item	-	-	-	-	-	8,793
Increase (decrease) in net assets	2,848,904	(420,473)	448,561	429,266	3,297,465	1,105,304
Net assets, beginning	<u>37,702,020</u>	<u>38,122,493</u>	<u>39,100,861</u>	<u>38,671,595</u>	<u>76,802,881</u>	<u>76,794,088</u>
Net Assets, Ending	<u>\$40,550,924</u>	<u>\$37,702,020</u>	<u>\$39,549,422</u>	<u>\$39,100,861</u>	<u>\$80,100,346</u>	<u>\$76,802,881</u>

The City's total revenues were \$29,946,644. The total cost of all programs and services was \$26,649,179, leaving an increase in net assets of \$3,297,465. Our analysis below separately considers the operations of governmental and business-type activities:

Governmental Activities – Analysis of Individual Funds:

General Fund

The General Fund had revenues (excluding transfers-in) of \$16,466,745, an increase of \$909,454, or 5.85%, from the prior fiscal year. This increase is mostly due to the combination of Property Tax revenue increasing by \$849,841, a 13.48% increase, and Investment Income increasing \$150,275, or 698.24%. Property Tax revenue increased due to a 1.00 millage rate increase and an increase in taxable values city-wide of 5.35%. Investment Income increased due to investment interest rates increasing and a smaller charge-off for writing investments down to market value this fiscal year as compared to the previous fiscal year. Other revenues were as follows: State Shared Revenues increased 2.28% due to a higher payout of 110.02% from the State for Fire Protection of State Facilities. The Sales Tax distribution portion of State Revenue Sharing decreased 1.55% due to lower collections being passed on from the State Pool. Federal and State Grants increased 63.38% mostly because of a pass-thru grant received on behalf of the Downtown Development Authority in the amount of \$100,000. Charges for Services decreased by 16.12% due to a lower collection of Garbage Disposal Fees. This revenue source is based on the contracted expenditure amount to provide Garbage Disposal services and is therefore offset by a decrease in the amount paid for this service.

General Fund expenditures (excluding transfers out) decreased \$5,321,903, or 29.15%, from the prior fiscal year. This decrease is largely due to a single capital outlay expenditure of \$5,220,844 in the previous fiscal year for purchasing property to be used for possible future development and recreational purposes. Excluding this property purchase, General Fund expenditures decreased by 0.78%. Expenditures by function were as follows: General Government decreased 3.59%; Public Health and Safety increased 3.57%; Public Works and Sanitation decreased 3.30% (excluding the aforementioned property purchase); Social Services increased 14.46%; Recreation and Culture decreased 12.30%; and Debt Service increased 0.80%.

In General Government, there were decreases in capital outlay purchases which would account for most of the 3.59% decrease in spending over the prior fiscal year. The Public Health and Safety increase of 3.57% is due to increases in personnel services which were scheduled in the labor bargaining contracts. The Public Works and Sanitation decrease of 3.30% was in large part due to the already mentioned contracted amount for Garbage Disposal Services. Social Services increased 14.46% mostly due to increases in personnel services. Recreation and Culture decreased 12.30% due to a decrease from the prior fiscal year in contractual services

for a Parks and Recreation Study/Survey. Debt Service increased 0.80% as per the debt service schedule.

Net Other Financing Uses decreased 218.13% due to issuance of debt in the previous fiscal year for the purchase of property. Transfers Out increased 50.81% due to an increase in the amount needed to fund the Major Street Fund and a new debt service fund.

The total Fund Balance increased \$225,309, or 5.44%, from the previous fiscal year while the unreserved portion of the Fund Balance increased \$357,279, or 10.20%, mostly due to reclassifying a previously reserved portion to unreserved.

Major and Local Street Funds

The Major Street Fund had revenues increase 203.17% and the Local Street Fund had revenues increase 93.44% from the previous fiscal year. The Major Street Fund increased due to a jurisdictional transfer with the Michigan Department of Transportation for Washington Street. Excluding this transfer money, Major Street Fund revenues decreased 1.89% due to a decrease in funding for State Trunkline Maintenance. The Local Street Fund had an increase due to receiving a Federal Highway Administration grant to help offset some of the repairs necessitated by the 2003 Dead River flood. Excluding this grant, the Local Street Fund had a decrease in revenues of 0.70% due to a slight decrease in the amount received from the Metro Telecommunications Act. All other revenue sources within these two funds remained stable from the previous fiscal year.

The Major Street Fund had expenditure decreases of 3.21% and the Local Street Fund had expenditures decrease 14.46% from the previous fiscal year. The Major Street decrease is attributable to lower State Trunkline Maintenance and Winter Maintenance expenditures. The Local Street decrease is attributable to lower Winter Maintenance expenditures from the previous fiscal year.

Net Other Financing Sources increased 55.25% for the Major Street Fund and decreased 85.23% for the Local Street Fund. The Major Street Fund increase is due to a higher Transfer-In from the General Fund to cover construction Fund transfers and the Local Street Fund decrease is due to a much lower Transfer-In from the General Fund due to lower Winter Maintenance costs and Construction Fund transfers.

These two funds traditionally do not carry a Fund Balance. This fiscal year both funds show a Fund Balance to carry over to the next fiscal year to cover projects that the money was intended for. It is anticipated these Fund Balances will return to \$0 once the projects are completed.

Lakeview Arena Fund

The Lakeview Arena Fund had revenues decrease \$10,385, or 1.66%. This decrease is attributable to receiving less revenue for ice time.

Expenditures in the Lakeview Arena Fund decreased \$18,280 or 2.04% from the previous fiscal year. This decrease was due in large part to the capital outlay purchase of a new Zamboni in the previous fiscal year. Operating costs were higher (5.56% higher than in the previous year) in large part due to higher personnel costs and natural gas heating costs.

Other Financing Sources for the Lakeview Arena Fund increased \$19,349, or 7.99% from the previous fiscal year. This is due to the Transfer-In from the General Fund being higher this year to offset operating costs in the Lakeview Arena Fund which are not covered by user fees.

The Fund Balance remained the same at \$43,119 from the previous fiscal year.

Construction Fund

Capital construction projects that have funding sources of more than one City accounting fund are accounted for in this single fund. In prior years, projects with multiple accounting fund sources were accounted for in each particular fund thereby making tracking of these projects a difficult process.

For this fiscal year, total project expenditures were \$1,794,803. \$547,762 (30.52%) was funded from various State and Federal Sources while the remainder was funded by transfers-in from other City funds and Bond proceeds.

Major Projects were Lakeshore Boulevard, Founders Landing Development, Wright Street, East Michigan and McClellan Avenue Reconstruction.

Debt Service Fund

The Debt Service Fund is used for the payments on the outstanding bonds for the Municipal Service Center, the Lakeview Arena, Founders Landing Development, Spring Street Reconstruction, and Forestland Development. The Municipal Service Center has \$4,005,000 in outstanding principal remaining, the Lakeview Arena has \$235,000 in outstanding principal remaining, Founders Landing Development has \$3,650,000 in outstanding principal remaining, Spring Street Reconstruction has \$1,077,354 in outstanding principal remaining, and Forestland Development has \$5,000,000 in outstanding principal remaining. The Municipal Service Center is funded by charges to various user City departments while the other outstanding bonds are funded by a transfer from the General Fund.

Other Governmental Activity Funds

The three funds, Environmental Protection; Criminal Justice Training; and Michigan State Housing Development Authority grant (MSHDA) round out the Governmental Activity area. Environmental Protection had no revenues and expenditures leaving it with a fund balance of \$13,268. Criminal Justice Training had revenues of \$8,663 and expenditures of \$7,020 leaving a fund balance of \$15,651. MSHDA had combined revenues of \$158,672 and combined expenditures of \$173,016 leaving a combined fund balance of \$17,552.

Table 3 presents the cost of each of the six largest programs – General Government, Public Health and Safety, Public Works, Highways and Streets, Sanitation, and Recreation and Culture – as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each program placed on the City's operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
General government	\$2,994,081	\$1,529,024
Public health and safety	4,919,863	4,621,189
Public works	3,546,425	1,805,998
Highways and streets	1,738,087	(3,070,613)
Sanitation	1,210,914	53,283
Recreation and culture	1,302,717	483,360

Business-type Activities – Analysis of Individual Funds:

Water and Sewer Fund

The combined Water and Sewer Fund had operating revenues of \$5,839,607, an increase of \$120,777, or 2.11%, from the previous fiscal year. This increase is due to a 3.0% per unit increase in both water and sewer commodity rates.

Operating expenses increased \$415,648, or 7.41%, from the previous fiscal year. The increase was due to higher charges for legal expenses, depreciation, and payment-in-lieu-of taxes.

Net Non-Operating Revenues increased \$154,205, or 158.17% due to higher investment income and receipt of money for settlement of litigation.

Net Assets decreased \$129,465, or 0.41%, from the previous fiscal year.

Stormwater Fund

The Stormwater Fund had operating revenues of \$709,859, an increase of \$60,825, or 9.37%, from the previous fiscal year.

Operating expenses increased \$194,123, or 31.95%, from the previous fiscal year due to higher Rental charges, uncollectible account and depreciation charges.

Net Non-Operating Expenses increased \$190,582, or 127.95% due to the receipt of a grant in the previous fiscal year.

Net Assets increased \$614,365, or 14.38% from the previous fiscal year.

Marina Fund

The Marina Fund had operating revenues of \$281,296, an increase of \$22,356, or 8.63%, from the previous fiscal year. This is due to an increase in Sales of Supplies and Slip Rental Fees.

Operating Expenses increased \$14,116, or 4.18%, from the previous fiscal year. The increase was due to higher Cost of Sales expenses from the prior fiscal year.

Net Non-Operating Expenses decreased \$11,398, or 52.01%, from the previous fiscal year due lower bond interest expense and higher investment income.

Net Assets decreased \$50,532, or 2.54%, from the previous fiscal year.

Intermodal Transportation Fund

The Intermodal Transportation Fund had operating revenues of \$35,531, a decrease of \$28,432, or 44.45%, from the previous fiscal year. The decrease was due to the major tenant of the building moving to a new location. Plans are for the building to be sold in the very near future and this fund will be closed out at that time.

Operating Expenses decreased \$70,174, or 44.93%, from the previous fiscal year. This is due to lower Personnel Services costs needed to maintain the building due to the aforementioned tenant vacating the premises.

Net Non-Operating Revenues were \$0, the same as the prior fiscal year.

Net Assets increased \$14,193, or 1.11%, from the previous fiscal year.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 34) reported a *combined* fund balance of \$8,061,266, an increase of \$2,504,437 from the beginning of the year. The majority of the increase was due to receiving funds for specific projects in the Major and Local Street Funds in which the projects will be completed in the near future.

General Fund Budgetary Highlights

Over the course of the year, the City Commission revised the budget two times. The revisions were made to the budget for the rollover of encumbrances from the previous fiscal year and to prevent budget overruns.

Revenue projections were below the final budgeted amount by \$1,007,851, including transfers-in. While each revenue source experienced some type of variation from its budget, the main culprit to the revenue shortfall was not selling property which was budgeted for \$925,564. Other large shortfalls were seen in State Shared Revenues of \$81,571 due to the various State Pools which comprise this source of funding not contributing as much as was anticipated, a shortfall in Charges for Services of \$231,161 due to not charging other funds as much as anticipated for internal services, and a shortfall in Investment Income of \$34,703 due to adjusting for 'mark to market'. These shortfalls were partially offset by a positive variation in the Payments-in-lieu-of taxes source in the amount of \$ 268,973. This is due to capital outlay projects in the utility's causing a higher valuation base.

The shortfall in revenue projections was offset by expenditures being under budget as well. Almost every department in the General Fund came in under budget by the end of the fiscal year. The total expenditure budget-to-actual variance was \$1,233,160, including transfers-out. One large under-budget category came from Transfers-Out not needing to be as great as originally anticipated to cover operating costs in various other funds. This accounted for \$271,176 of the variance. General Government had a large positive variance of \$340,455 in part due to holding the line on personnel services by opening early retirement windows and other attrition. Savings were also seen in contractual/professional service line items in various departments which helped to contribute to the large positive budget variance.

The total Fund Balance was budgeted to not change and the actual was a positive increase of \$225,309, thereby making the variance a positive \$225,309. The reasons are explained above in the discussion of revenues and expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006 the City had \$93,530,983 invested in a variety of capital assets including land and improvements, buildings and improvements, equipment and infrastructure. (See table 4 below)

Table 4
Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities 2006	Business-type Activities 2006	Totals 2006
Land and construction in progress	\$15,428,833	\$102,500	\$15,531,333
Land improvements	2,674,866	1,885,270	4,560,136
Buildings and improvements	8,178,262	10,355,770	18,534,032
Equipment and furnishings	4,085,596	3,055,024	7,140,620
Infrastructure	14,454,922	26,792,725	41,247,647
Investment in joint venture	3,524,660	2,992,555	6,517,215
Totals	<u>\$48,347,139</u>	<u>\$45,183,844</u>	<u>\$93,530,983</u>

Further details on capital assets can be found in Note J.

Debt

At year-end, the City had \$25,753,670 in bonds, notes and capital lease obligations outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year-End

	Governmental Activities 2006	Business-type Activities 2006	Totals 2006
General obligation bonds	\$14,024,037	\$-	\$14,024,037
Revenue bonds	-	6,535,000	6,535,000
Contracts and notes payable	1,389,758	3,442,277	4,832,035
Capital lease obligations	-	362,598	362,598
Totals	<u>\$15,413,795</u>	<u>\$10,339,875</u>	<u>\$25,753,670</u>

Further details on long-term debt can be found in Note F.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's elected and appointed officials consider many factors when setting the fiscal year 2007 budget. One of those factors is the economy. The State of Michigan has suffered from an economic downturn over the past several years which has forced the State to deal with its own budgetary shortfalls. These shortfalls tend to trickle down to the local units of government by way of Revenue Sharing payments being reduced by the State. While the State has promised not to cut back any further on State Revenue Sharing payments, they are also saying that this major source of revenue to the local units is not likely to increase in the foreseeable future. We will continue to monitor the situation as this has and will continue to greatly impact the City's General Fund budget over the next several years. State Revenue Sharing represents approximately 15% of General Fund revenues.

Property Taxes are another big factor in the City's General Fund budget. Property Taxes are calculated on taxable value. Taxable value growth is capped, by State constitution, at the lower of the rate of inflation or 5%. In the year when property sells, the taxable value is then allowed to be adjusted to reflect actual increases in taxable value and then the capping process starts all over again. It is projected this capping process is costing

the City approximately \$1,000,000 per year by not being able to fully realize the true increases in taxable value.

Declining interest rates over the last several years has both benefited and harmed the City's budget. On the benefit side, the City was able to refund some Revenue Bonds in a prior fiscal year which has decreased the debt service requirements for the Water and Sewer and the Marina Funds. This will help to keep those user fee rates from rising as much as they could have. On the harmful side, the General Fund had become accustomed to collecting a property tax equivalent of almost 2 mills from investment interest. The current property tax equivalent has dropped to below 0.5 mills. Recent months have seen investment interest rates beginning to nudge upward which will provide a little relief on the revenue side of things.

There currently is legislation being discussed at the Federal level which could have a significant negative impact to the General Fund revenues. The City currently collects approximately \$200,000 in Cable TV Franchise fees annually. The legislation, if passed as currently written, will eliminate this entire source of revenue thereby putting additional pressure on the City to either further raise millage rates and service fees and/or reduce the level of service provided to its citizens as a result of cost cutting measures.

On the expenditure side, the City is dealing with sizable increases in health insurance costs for health insurance provided to its employee's. Recent years have seen increases of as high as 25% in this cost. Several strategies have been formed along with several committees in order to deal with this situation. For fiscal year 2007, much needed relief was given in this area as the City's health insurance carrier held the line on premium increases. Hopefully, though not likely, this trend will continue.

Also on the expenditure side, with the issuance of bonds to fund the 'Founders Landing' project and also the Forestland property recently purchased for recreational and possible development purposes, new debt service will be required. Currently, these debt service payments will be made by the General Fund. The overall plan is to sell property in the Founders Landing area and use those monies to pay the Founders Landing debt service in future years. If this property is not sold, then the General Fund must continue to make the payments. As part of the purchase of the Forestland property, the property tax millage was raised one mill to pay for this debt service. It is anticipated this will continue for the life of the bonds.

Large fluctuations in gasoline and natural gas costs are also on the list of things to carefully monitor. The latter is extremely harmful as the City is located in a cold weather region and is a large user of natural gas for heating City facilities. This will have a large negative impact on current and future budgets as the City struggles to balance its budget and continue to provide the current level of services.

Overall, the prospect of declining major revenues and increasing expenditures in the General Fund will make for a challenging budget process. City's management is now and will continue to be challenged to increase current revenue sources and find new ones and also to contain expenditures in order to provide our citizens with a balanced budget and still provide the level of services that are demanded.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Finance Office at City of Marquette, 300 West Baraga, Marquette, Michigan, 49855. Additional information about the City may also be found on the City's website at www.mqtcty.org.

City of Marquette, Michigan

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements provide an overview of the City's financial position and the result of the current year's operations and cash flows.

These Basic Financial Statements indicate the classes and funds displayed in subsequent sections of the report and present comprehensive data for assets, liabilities, revenues, transfers, expenses or expenditures and cash flows of City funds.

City of Marquette, Michigan

STATEMENT OF NET ASSETS

June 30, 2006

	Primary Government			
	Governmental Activities	Business Type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 4,384,069	\$ 1,640,969	\$ 6,025,038	\$ 4,257,031
Investments	2,797,241	-	2,797,241	7,633,985
Receivables (net)	9,698,606	866,869	10,565,475	2,736,342
Primary government internal balances	3,021	(3,021)	-	-
Component unit internal balances	146,600	-	146,600	(146,600)
Inventory	139,373	159,124	298,497	3,021,884
Prepaid expenses and other assets	117,728	5,135	122,863	121,974
Other current assets	-	-	-	-
TOTAL CURRENT ASSETS	17,286,638	2,669,076	19,955,714	17,624,616
Noncurrent assets:				
Restricted assets	707,910	2,435,341	3,143,251	5,051,703
Long-term receivables	6,039	-	6,039	-
Unamortized bond issue costs	-	139,888	139,888	48,936
Investment in UPPPA	-	-	-	2,037,550
Capital assets:				
Investment in joint venture	3,524,660	2,992,555	6,517,215	-
Land and construction in progress	15,434,721	102,500	15,537,221	114,704
Other capital assets	67,109,576	58,592,605	125,702,181	139,440,645
Accumulated depreciation	(37,721,818)	(16,503,816)	(54,225,634)	(88,520,551)
Total Capital Assets	48,347,139	45,183,844	93,530,983	51,034,798
TOTAL NONCURRENT ASSETS	49,061,088	47,759,073	96,820,161	58,172,987
TOTAL ASSETS	66,347,726	50,428,149	116,775,875	75,797,603
LIABILITIES:				
Current Liabilities:				
Accounts payable	443,660	419,224	862,884	1,160,017
Accrued liabilities	190,855	43,753	234,608	223,674
Unearned revenue	7,971,767	27,083	7,998,850	1,452,618
Compensated absences	794,406	140,923	935,329	814,390
Current portion of bonds payable	802,951	315,000	1,117,951	588,572
Current portion of notes and contracts payable	149,866	165,286	315,152	17,906
Current portion of capital lease obligations	-	120,866	120,866	-
Other current liabilities	5,228	119,739	124,967	1,414,154
Current maturities on revenue bonds	-	640,000	640,000	2,695,000
Revenue bond accrued interest payable	-	-	-	145,987
TOTAL CURRENT LIABILITIES	10,358,733	1,991,874	12,350,607	8,512,318
Noncurrent Liabilities:				
Compensated absences	977,089	-	977,089	77,310
Bonds payable	13,221,087	5,580,000	18,801,087	9,502,396
Long-term contracts and notes payable	1,239,893	3,276,991	4,516,884	1,103,286
Capital lease obligations	-	241,732	241,732	-
Premium on refunding	-	53,146	53,146	-
Deferred amounts on refunding	-	(265,016)	(265,016)	-
Other	-	-	-	611,056
TOTAL NONCURRENT LIABILITIES	15,438,069	8,886,853	24,324,922	11,294,048
TOTAL LIABILITIES	25,796,802	10,878,727	36,675,529	19,806,366
NET ASSETS				
Invested in capital assets net of related debt	32,827,042	32,258,682	65,085,724	40,819,770
Restricted for:				
Debt Service	-	1,951,234	1,951,234	222,047
Perpetual Care - Nonexpendable	548,317	-	548,317	-
Other activities	-	-	-	2,991,475
Unrestricted	7,175,565	5,339,506	12,515,071	11,957,945
TOTAL NET ASSETS	\$ 40,550,924	\$ 39,549,422	\$ 80,100,346	\$ 55,991,237

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2006

Function / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business Type Activities	Total	Component Units
Primary Government:								
Governmental Activities:								
General government	\$ 2,994,081	\$ 1,176,083	\$ 286,974	\$ -	\$ (1,529,024)	\$ -	\$ (1,529,024)	\$ -
Public health and safety	4,919,863	202,368	96,286	-	(4,621,189)	-	(4,621,189)	-
Public works	3,546,425	1,102,852	-	637,575	(1,805,998)	-	(1,805,998)	-
Highway and streets	1,738,087	-	4,808,700	-	3,070,613	-	3,070,613	-
Social services	511,948	-	252,087	-	(259,881)	-	(259,881)	-
Sanitation	1,210,914	1,157,631	-	-	(53,283)	-	(53,283)	-
Recreation and culture	1,302,717	809,727	-	9,630	(483,360)	-	(483,360)	-
Interest on long-term debt	845,767	-	-	-	(845,767)	-	(845,767)	-
Depreciation - unallocated	1,912,853	-	-	-	(1,912,853)	-	(1,912,853)	-
Total Governmental Activities	18,982,655	4,448,681	5,446,027	647,205	(8,440,742)	-	(8,440,742)	-
Business Type Activities:								
Water supply and sewage disposal	6,339,831	5,914,730	-	-	-	(425,101)	(425,101)	-
Stormwater utility	866,257	709,859	9,000	-	-	(147,398)	(147,398)	-
Marina	374,433	281,296	-	-	-	(93,137)	(93,137)	-
Intermodal transportation terminal	86,003	35,531	-	-	-	(50,472)	(50,472)	-
Total Business Type Activities	7,666,524	6,941,416	9,000	-	-	(716,108)	(716,108)	-
TOTAL PRIMARY GOVERNMENT	\$ 26,649,179	\$ 11,390,097	\$ 5,455,027	\$ 647,205	(8,440,742)	(716,108)	(9,156,850)	-
Component Units:								
Board of Light and Power	23,649,051	23,588,650	-	175,385	-	-	-	114,984
Public Library	2,075,320	233,609	387,729	-	-	-	-	(1,453,982)
Downtown Development Authority	425,708	161,700	97,989	-	-	-	-	(168,019)
Marquette Housing Commission	1,818,694	467,215	1,097,495	-	-	-	-	(253,984)
TOTAL COMPONENT UNITS	\$ 27,968,773	\$ 24,387,463	\$ 1,648,924	\$ 175,385	-	-	-	(1,759,001)
General Revenues:								
Taxes:								
Property taxes					7,155,812	-	7,155,812	1,359,264
Payment in lieu of taxes					2,353,273	-	2,353,273	-
Unrestricted State sources					2,234,285	-	2,234,285	-
Interest and investment earnings					255,506	230,576	486,082	854,302
Miscellaneous					133,747	91,116	224,863	175,462
Transfers					(842,977)	842,977	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					11,289,646	1,164,669	12,454,315	2,389,028
CHANGE IN NET ASSETS								
Net assets, beginning of year as restated					2,848,904	448,561	3,297,465	630,027
NET ASSETS, END OF YEAR					37,702,020	38,100,861	76,802,881	55,361,210
					\$ 40,550,924	\$ 39,549,422	\$ 80,100,346	\$ 55,991,237

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2006

	General Fund	Major Street and Trunkline Fund	Local Street Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 892,116	\$ 2,486,027	\$ 149,384	\$ 56,404	\$ 688,819	\$ 4,272,750
Investments	2,797,241	-	-	-	-	2,797,241
Taxes receivable, net	7,731,118	-	-	-	-	7,731,118
Special assessments receivable	270,812	-	-	-	-	270,812
Accounts receivable, net	99,001	-	-	344,526	5,577	449,104
Due from other authorities	653,754	-	-	-	-	653,754
Due from component units	117,442	-	-	-	-	117,442
Due from other funds	446,622	-	-	-	-	446,622
Due from other governments	276,283	171,354	56,459	-	70,568	574,664
Inventory	108,821	-	-	-	-	108,821
Advances to component units	29,158	-	-	-	-	29,158
Prepaid expenditures	109,948	-	-	-	2,667	112,615
TOTAL ASSETS	\$ 13,532,316	\$ 2,657,381	\$ 205,843	\$ 400,930	\$ 767,631	\$ 17,564,101
LIABILITIES AND FUND BALANCE						
LIABILITIES:						
Accounts payable	\$ 321,072	\$ 2,685	\$ 852	\$ 42,674	\$ 12,023	\$ 379,306
Accrued compensated absences	702,933	-	-	-	-	702,933
Due to other funds	165,652	168,669	55,607	-	53,673	443,601
Due to other local units	5,228	-	-	-	-	5,228
Deferred revenue	7,971,767	-	-	-	-	7,971,767
TOTAL LIABILITIES	9,166,652	171,354	56,459	42,674	65,696	9,502,835
FUND BALANCE:						
Reserved for:						
Capital outlay	-	-	-	358,256	35,036	393,292
Encumbrances	259,219	-	-	-	-	259,219
Other prepaids and inventories	247,927	-	-	-	612,345	860,272
Unreserved, reported in:						
General Fund	3,858,518	-	-	-	-	3,858,518
Special Revenue Funds	-	2,486,027	149,384	-	54,554	2,689,965
TOTAL FUND BALANCE	4,365,664	2,486,027	149,384	358,256	701,935	8,061,266
TOTAL LIABILITIES AND FUND BALANCE	\$ 13,532,316	\$ 2,657,381	\$ 205,843	\$ 400,930	\$ 767,631	\$ 17,564,101

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

June 30, 2006

Total Fund Balances for Governmental Funds	\$ 8,061,266
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*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds (includes capital assets of internal service funds).	48,347,139
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Internal service funds are used by management to charge the costs of certain activities, such as the purchase and maintenance of equipment and vehicles and the operation of the Municipal Service Center, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets, net of capital assets.

Current assets	\$ 166,138	
Restricted assets	707,910	
Long-term receivables	6,039	
Current liabilities	<u>(155,827)</u>	
		724,260

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Current portion of bonds payable	\$ 802,951	
Current portion of notes and contracts payable	149,866	
Accrued interest on bonds	190,855	
Compensated absences	977,089	
Bonds payable	13,221,087	
Long-term contracts and notes payable	<u>1,239,893</u>	
		(16,581,741)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 40,550,924</u>
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The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2006

	General Fund	Major Street and Trunkline Fund	Local Street Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes and penalties	\$ 7,155,812	\$ -	\$ -	\$ -	\$ -	\$ 7,155,812
State sources	2,458,562	1,189,406	581,731	-	99,455	4,329,154
Federal sources	76,054	2,486,027	551,536	547,762	-	3,661,379
Charges for services	3,401,185	-	-	-	31,988	3,433,173
Sales	28,117	-	-	-	145,654	173,771
Use and admission fees	213,825	-	-	-	366,799	580,624
Rentals	43,038	-	-	-	92,073	135,111
Licenses and permits	28,250	-	-	-	-	28,250
Fines and forfeiture	95,917	-	-	-	-	95,917
Sale of assets	908	-	-	-	-	908
Reimbursements	53,771	-	-	-	-	53,771
Investment income	171,797	-	-	63,416	20,293	255,506
Payment in lieu of taxes	2,353,273	-	-	-	-	2,353,273
Private contribution	107,630	-	-	-	-	107,630
Intergovernmental revenue	143,489	-	-	-	-	143,489
Special assessments	89,813	-	-	-	-	89,813
Other	45,304	-	-	-	68,076	113,380
TOTAL REVENUES	16,466,745	3,675,433	1,133,267	611,178	824,338	22,710,961
EXPENDITURES:						
Current operations:						
General government	3,030,355	-	-	-	1,854	3,032,209
Public health and safety	4,895,020	-	-	-	7,020	4,902,040
Public works	2,946,331	-	-	-	-	2,946,331
Highway and streets	-	1,200,560	1,047,384	-	-	2,247,944
Social services	338,932	-	-	-	173,016	511,948
Sanitation	1,191,959	-	-	-	-	1,191,959
Recreation and culture	425,425	-	-	-	877,292	1,302,717
Capital outlay	-	40,384	113	1,794,803	-	1,835,300
Debt service						
Principal retirement	80,702	293,443	31,557	-	512,873	918,575
Interest and fiscal charges	23,302	51,532	5,542	-	775,262	855,638
TOTAL EXPENDITURES	12,932,026	1,585,919	1,084,596	1,794,803	2,347,317	19,744,661
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,534,719	2,089,514	48,671	(1,183,625)	(1,522,979)	2,966,300
OTHER FINANCING SOURCES (USES):						
Issuance of debt	-	-	-	-	-	-
Transfers in	19,807	803,554	130,659	728,872	1,641,256	3,324,148
Transfers (out)	(3,329,217)	(407,041)	(29,946)	-	(19,807)	(3,786,011)
TOTAL OTHER FINANCING SOURCES (USES)	(3,309,410)	396,513	100,713	728,872	1,621,449	(461,863)
CHANGE IN FUND BALANCE	225,309	2,486,027	149,384	(454,753)	98,470	2,504,437
Fund balance, beginning of year	4,140,355	-	-	813,009	603,465	5,556,829
FUND BALANCE, END OF YEAR	\$ 4,365,664	\$ 2,486,027	\$ 149,384	\$ 358,256	\$ 701,935	\$ 8,061,266

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds **\$ 2,504,437**

*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Includes Internal Service Funds depreciation expense of \$793,497.

Capital outlays	\$ 1,886,607	
Depreciation expense	<u>(2,706,350)</u>	(819,743)

Investments in joint ventures is reported on entity wide statements but not in individual governmental funds. Changes in value of investments in joint ventures does not appear in governmental funds. (35,737)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 918,575

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 9,183

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 1,301

Internal service funds are used by management to charge costs of certain activities, such as the purchase and maintenance of equipment and vehicles and the operation of the Municipal Service Center, to individual funds. The net revenue of the Internal Service Funds is reported with governmental activities net of depreciation expense.

Change in net assets	(522,609)	
Depreciation expense	<u>793,497</u>	270,888

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 2,848,904**

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 7,108,800	\$ 7,108,800	\$ 7,155,812	\$ 47,012
Federal grants	53,000	53,000	76,054	23,054
State grants and shared revenues	2,315,219	2,554,019	2,458,562	(95,457)
Intergovernmental revenues	153,468	154,168	143,489	(10,679)
Licenses and permits	25,530	29,430	28,250	(1,180)
Charges for services	3,617,546	3,632,346	3,401,185	(231,161)
Fines and forfeits	22,500	91,300	95,917	4,617
Interest and rentals	250,900	265,400	214,835	(50,565)
Other revenues	3,754,176	3,587,940	2,892,641	(695,299)
TOTAL REVENUES	<u>17,301,139</u>	<u>17,476,403</u>	<u>16,466,745</u>	<u>(1,009,658)</u>
EXPENDITURES:				
General government	3,077,677	3,370,810	3,030,355	340,455
Public health and safety	5,019,052	5,050,673	4,895,020	155,653
Public works	4,366,567	3,171,733	2,946,331	225,402
Sanitation	-	1,244,268	1,191,959	52,309
Social services	370,025	380,041	338,932	41,109
Recreation and culture	414,885	555,445	425,425	130,020
Special assessments	-	17,000	-	17,000
Debt service	103,940	104,040	104,004	36
TOTAL EXPENDITURES	<u>13,352,146</u>	<u>13,894,010</u>	<u>12,932,026</u>	<u>961,984</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,948,993</u>	<u>3,582,393</u>	<u>3,534,719</u>	<u>(47,674)</u>
OTHER FINANCING SOURCES (USES):				
Issuance of debt	-	-	-	-
Transfers in	18,000	18,000	19,807	1,807
Transfers (out)	(3,966,993)	(3,600,393)	(3,329,217)	271,176
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,948,993)</u>	<u>(3,582,393)</u>	<u>(3,309,410)</u>	<u>272,983</u>
CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>225,309</u>	<u>225,309</u>
Fund balance, beginning of year	<u>4,140,355</u>	<u>4,140,355</u>	<u>4,140,355</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 4,140,355</u></u>	<u><u>\$ 4,140,355</u></u>	<u><u>\$ 4,365,664</u></u>	<u><u>\$ 225,309</u></u>

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

MAJOR SPECIAL REVENUE FUNDS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	MAJOR STREET FUND				LOCAL STREET FUND			
	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES:								
Federal and State sources	\$ 1,880,040	\$ 1,530,661	\$ 3,675,433	\$ 2,144,772	\$ 547,000	\$ 548,000	\$ 1,133,267	\$ 585,267
TOTAL REVENUES	1,880,040	1,530,661	3,675,433	2,144,772	547,000	548,000	1,133,267	585,267
EXPENDITURES:								
Highways, Streets and Bridges	1,535,055	1,501,447	1,240,944	260,503	1,509,832	1,510,832	1,047,497	463,335
Debt Service	344,985	344,985	344,975	10	37,105	37,105	37,099	6
TOTAL EXPENDITURES	1,880,040	1,846,432	1,585,919	260,513	1,546,937	1,547,937	1,084,596	463,341
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(315,771)	2,089,514	2,405,285	(999,937)	(999,937)	48,671	1,048,608
OTHER FINANCING SOURCES (USES) :								
Transfers in	-	689,040	803,554	114,514	999,937	999,937	130,859	(869,278)
Transfers (out)	-	(373,269)	(407,041)	(33,772)	-	-	(29,946)	(29,946)
TOTAL OTHER FINANCING SOURCES	-	315,771	396,513	80,742	999,937	999,937	100,713	(899,224)
CHANGE IN FUND BALANCE	-	-	2,486,027	2,486,027	-	-	149,384	149,384
Fund balance, beginning of year	-	-	-	-	-	-	-	-
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ 2,486,027	\$ 2,486,027	\$ -	\$ -	\$ 149,384	\$ 149,384

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2006

	Business- Type Activities: Enterprise Funds				Governmental Activities Internal Service Funds
	Water Supply and Sewage Disposal Fund	Stormwater Utility Fund	Nonmajor Enterprise Funds	Total	
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 1,640,569	\$ -	\$ 400	\$ 1,640,969	\$ 111,319
Special assessments receivable	27,083	-	-	27,083	-
Accounts receivable, net	805,995	32,731	1,060	839,786	18,469
Due from local units	-	-	-	-	685
Due from other funds	-	-	165,652	165,652	-
Due from other governments	-	-	-	-	-
Inventory	133,304	-	25,820	159,124	30,552
Prepaid expenses	4,600	199	336	5,135	5,113
Customer deposits	-	-	-	-	-
Delinquent utility bills on taxes	-	-	-	-	-
Unamortized bond issuance costs	90,828	42,014	7,046	139,888	-
TOTAL CURRENT ASSETS	2,702,379	74,944	200,314	2,977,637	166,138
Noncurrent Assets:					
Restricted Assets:					
Bond reserve fund	50,765	259,769	103,268	413,802	-
Replacement and maintenance fund	390,000	-	-	390,000	616,437
Bond and interest redemption fund	34,204	-	239,916	274,120	-
Water filtration reserve	1,114,801	-	-	1,114,801	-
Bond escrow fund	63,032	38,663	-	101,695	-
Vacation, sick leave and benefit reserve	134,735	6,188	-	140,923	91,473
Total Restricted Assets	1,787,537	304,620	343,184	2,435,341	707,910
Long-term receivables	-	-	-	-	6,039
Land and land improvements	-	-	102,500	102,500	251,454
Property, plant, and equipment	46,060,770	6,817,613	5,714,222	58,592,605	15,917,201
Accumulated depreciation	(13,025,050)	(1,232,927)	(2,245,839)	(16,503,816)	(9,117,864)
Other noncurrent assets	2,992,555	-	-	2,992,555	-
TOTAL NONCURRENT ASSETS	37,815,812	5,889,306	3,914,067	47,619,185	7,764,740
TOTAL ASSETS	40,518,191	5,964,250	4,114,381	50,596,822	7,930,878
LIABILITIES					
Current Liabilities:					
Cash overdraft	-	-	-	-	-
Accounts payable	400,181	1,167	17,876	419,224	64,354
Accrued compensated absences	134,735	6,188	-	140,923	91,473
Due to other funds	-	-	168,673	168,673	-
Due to other local units	-	-	111,083	111,083	-
Customer deposits payable	(75)	-	8,731	8,656	-
Accrued interest payable	35,267	5,386	3,100	43,753	-
Current portion of long-term debt	286,152	245,000	70,000	601,152	-
Deferred revenue	27,083	-	-	27,083	-
TOTAL CURRENT LIABILITIES	883,343	257,741	379,463	1,520,547	155,827
Current Liabilities (payable from restricted assets):					
Current liabilities payable from restricted assets	640,000	-	-	640,000	-
Noncurrent Liabilities:					
Bonds payable	4,230,000	820,000	530,000	5,580,000	-
Notes payable	91,991	-	-	91,991	-
Loan payable	3,185,000	-	-	3,185,000	-
Capital lease obligations	241,732	-	-	241,732	-
Premium on refunding	53,146	-	-	53,146	-
Deferred amounts on refunding	(238,213)	-	(26,803)	(265,016)	-
TOTAL NONCURRENT LIABILITIES	7,563,656	820,000	503,197	8,886,853	-
TOTAL LIABILITIES	9,086,999	1,077,741	882,660	11,047,400	155,827
NET ASSETS					
Invested in capital assets net of related debt	24,723,443	4,519,686	2,970,883	32,214,012	7,050,791
Net Assets:					
Restricted for debt service	1,652,802	298,432	-	1,951,234	-
Unrestricted	5,054,947	68,391	260,838	5,384,176	724,260
TOTAL NET ASSETS	\$ 31,431,192	\$ 4,886,509	\$ 3,231,721	\$ 39,549,422	\$ 7,775,051

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2006

	Business- Type Activities: Enterprise Funds			Governmental Activities Internal Service Funds
	Water Supply and Sewage Disposal Fund	Stormwater Utility Fund	Nonmajor Enterprise Funds	
			Total	
OPERATING REVENUES:				
Water sales	\$ 3,210,628	\$ -	\$ 3,210,628	\$ -
Sewage disposal	2,387,015	-	2,387,015	-
Charges for services	-	709,859	746,078	2,453,980
Other operating revenue	241,964	-	280,608	35,435
TOTAL OPERATING REVENUES	5,839,607	709,859	6,866,293	2,489,415
OPERATING EXPENSES:				
General and administrative	1,028,247	-	261,482	818,522
Water treatment and distribution	1,339,401	-	-	-
Sanitary sewer operation and booster stations	1,897,644	-	-	-
Stormwater	-	560,016	-	-
Payments in lieu of taxes	767,516	-	-	-
Depreciation	992,976	241,606	1,410,969	793,497
Vehicle operating expenses	-	-	-	1,077,385
TOTAL OPERATING EXPENSES	6,025,785	801,622	7,265,276	2,689,404
OPERATING INCOME (LOSS)	(186,178)	(91,763)	(121,042)	(199,989)
NONOPERATING REVENUES (EXPENSES):				
Investment income	204,520	14,006	12,050	44,474
Other financing sources	91,116	-	-	-
Interest expense	(314,046)	(64,635)	(22,567)	-
Sale of capital assets	-	-	-	14,019
State and Federal grants	-	9,000	-	-
Operating income from Marquette Area Wastewater Treatment Facility	75,123	-	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	56,713	(41,629)	(10,517)	58,493
INCOME (LOSS) BEFORE TRANSFERS	(129,465)	(133,392)	(131,559)	(141,496)
Transfers in	-	747,757	95,220	-
Transfers (out)	-	-	-	(381,113)
CHANGE IN NET ASSETS	(129,465)	614,365	(36,339)	(522,609)
Net assets, beginning of year	31,560,657	4,272,144	3,268,060	8,297,660
NET ASSETS, END OF YEAR	\$ 31,431,192	\$ 4,886,509	\$ 3,231,721	\$ 7,775,051

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2006

	Business-Type Activities: Enterprise Funds				Governmental Activities Internal Service Funds
	Water Supply and Sewage Disposal Fund	Stormwater Utility Fund	Nonmajor Enterprise Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from fees and charges for services	\$ 5,620,041	\$ 641,480	\$ 315,962	\$ 6,577,483	\$ 2,436,372
Other operating revenues	239,930	-	1,701	241,631	35,435
Cash payments to employees for services	(1,321,935)	(214,260)	(67,856)	(1,604,051)	(649,385)
Cash payments to suppliers for goods and services	(3,546,147)	(240,383)	(205,307)	(3,991,837)	(1,436,702)
NET CASH PROVIDED BY OPERATING ACTIVITIES	991,889	186,837	44,500	1,223,226	385,720
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in (out)	75,123	747,757	95,220	918,100	(381,113)
Other financing sources	91,116	-	-	91,116	-
State and Federal grants	-	9,000	-	9,000	-
Decrease in due from other governments	350,982	-	-	350,982	-
(Increase) in due from other funds	-	-	214,300	214,300	-
Increase in due to other funds	-	-	(208,299)	(208,299)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	517,221	756,757	101,221	1,375,199	(381,113)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Cash payments for capital assets	(3,321,172)	(766,187)	-	(4,087,359)	(590,650)
Interest paid on bonds	(350,750)	(64,635)	(19,067)	(434,452)	-
Principal payments on bonds and other long-term debt	(910,162)	(230,000)	(70,000)	(1,210,162)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,582,084)	(1,060,822)	(89,067)	(5,731,973)	(590,650)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest income	204,520	14,006	12,050	230,576	44,474
(Increase) decrease in restricted assets:					
Bond reserve fund	(2,183)	(2,425)	-	(4,608)	-
Bond interest redemption fund	(8,581)	-	-	(8,581)	-
Water filtration revenue	(5,578)	-	-	(5,578)	-
Bond escrow fund	(2,599)	15	-	(2,584)	-
Vacation and sick leave reserve	29,189	(1,966)	-	27,223	43,376
Marina bonds	-	-	(12,050)	(12,050)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	214,768	9,630	-	224,398	87,850
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,858,206)	(107,598)	56,654	(2,909,150)	(498,193)
Cash and cash equivalents, beginning of year	4,498,775	107,598	(56,254)	4,550,119	624,707
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,640,569	\$ -	\$ 400	\$ 1,640,969	\$ 126,514
Noncash Investing, Capital and Financing Activities:					
Net depreciation in fair value of investments	\$ (2,730)	\$ (1,187)	\$ -	\$ (3,917)	\$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ (186,178)	\$ (91,763)	\$ (121,042)	\$ (398,983)	\$ (199,989)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	992,976	241,606	176,387	1,410,969	793,497
Amortization	12,314	8,403	920	21,637	-
Change in assets and liabilities:					
(Increase) decrease in accounts receivable, net	17,937	27,551	836	46,324	(17,608)
Decrease in special assessments receivable	95,359	-	-	95,359	-
(Increase) decrease in inventory	(7,307)	-	836	(6,471)	(17,608)
Decrease in customer deposits	24,020	-	-	24,020	(8,238)
Decrease in delinquent utility bills on taxes	2,427	-	-	2,427	-
(Increase) in prepaid expenses	(4,500)	(199)	(336)	(5,135)	(5,113)
Increase in customer deposits payable	(24,095)	-	440	(23,655)	-
Increase (decrease) in accounts payable	191,202	(727)	(5,491)	184,984	(133,453)
Increase (decrease) in accrued sick and vacation	(29,189)	1,966	-	(27,223)	(43,376)
Increase (decrease) in accrued interest	2,382	-	(233)	2,149	-
(Decrease) in deferred revenue	(95,359)	-	-	(95,359)	-
NET ADJUSTMENTS	1,178,067	278,600	173,359	1,630,026	568,101
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 991,889	\$ 186,837	\$ 52,317	\$ 1,231,043	\$ 368,112

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Private- Purpose Trust Funds	Pension Trust Funds	Agency Funds
ASSETS			
Cash and equivalents	\$ 494,661	\$ 1,689,738	\$ 1,554,552
Investments:			
United States Government Securities	-	4,947,662	-
Domestic Corporation Bonds	-	2,622,306	-
Common, Pooled Fund	-	16,168,899	-
Government National Mortgage Association	-	1,449	-
Accounts receivable	-	-	1,254
Taxes receivable	-	-	132,248
Accrued interest receivable	-	96,166	-
TOTAL ASSETS	<u>494,661</u>	<u>25,526,220</u>	<u>\$ 1,688,054</u>
LIABILITIES			
Accounts payable	279	-	\$ -
Contract retainage payable	-	-	98,099
Accrued wages and related liabilities	-	-	973,224
Due to other governments	-	-	43,764
Due to State	-	-	34,286
Due to local units	-	-	535,354
Other liabilities	-	-	3,327
TOTAL LIABILITIES	<u>279</u>	<u>-</u>	<u>\$ 1,688,054</u>
NET ASSETS			
Held in trust for pension benefits	-	25,526,220	
Held in trust for individuals, organizations, and other governments	<u>494,382</u>	<u>-</u>	
TOTAL NET ASSETS	<u>\$ 494,382</u>	<u>\$ 25,526,220</u>	

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Fiscal Year Ended June 30, 2006

	Private- Purpose Trust Funds	Pension Trust Funds
ADDITIONS:		
Contributions:		
Employer	\$ -	\$ 265,196
Employee	-	222,169
Gifts, bequests and endowments	<u>170,695</u>	<u>-</u>
Total Contributions	<u>170,695</u>	<u>487,365</u>
Investment Income:		
Net appreciation in fair value of investments	-	1,105,917
Interest and dividends	-	663,988
Investment expense	<u>-</u>	<u>(154,782)</u>
Net Investment Income (Loss)	<u>-</u>	<u>1,615,123</u>
TOTAL ADDITIONS (DEDUCTIONS)	<u>170,695</u>	<u>2,102,488</u>
DEDUCTIONS:		
Benefits and annuity withdrawals	-	1,410,058
Administrative expenses	-	10,449
Payments in accordance with trust agreements	<u>98,568</u>	<u>-</u>
TOTAL DEDUCTIONS	<u>98,568</u>	<u>1,420,507</u>
CHANGE IN NET ASSETS	72,127	681,981
Net assets, beginning of year	<u>422,255</u>	<u>24,844,239</u>
NET ASSETS, END OF YEAR	<u><u>\$ 494,382</u></u>	<u><u>\$ 25,526,220</u></u>

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

COMPONENT UNITS

COMBINING STATEMENT OF NET ASSETS

June 30, 2006

	Board of Light and Power	Peter White Public Library	Nonmajor Component Units	Total
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 3,245,006	\$ 164,877	\$ 847,148	\$ 4,257,031
Investments	6,040,271	1,219,416	374,298	7,633,985
Receivables, net	1,247,951	1,111,368	377,023	2,736,342
Inventory	3,011,375	-	10,509	3,021,884
Prepaid expenses and other assets	64,399	14,756	42,819	121,974
TOTAL CURRENT ASSETS	13,609,002	2,510,417	1,651,797	17,771,216
Noncurrent Assets:				
Restricted Assets	5,051,703	-	-	5,051,703
Unamortized bond issuance costs	48,936	-	-	48,936
Investment in UPPPA	2,037,550	-	-	2,037,550
Capital assets:				
Land	-	114,704	-	114,704
Other capital assets	115,317,907	11,080,564	13,042,174	139,440,645
Accumulated depreciation	(76,297,451)	(4,673,622)	(7,549,478)	(88,520,551)
Total Capital Assets	39,020,456	6,521,646	5,492,696	51,034,798
TOTAL NONCURRENT ASSETS	46,158,645	6,521,646	5,492,696	58,172,987
TOTAL ASSETS	59,767,647	9,032,063	7,144,493	75,944,203
LIABILITIES				
Current Liabilities:				
Accounts payable	730,892	37,139	391,986	1,160,017
Accrued liabilities	116,448	-	107,226	223,674
Internal balances	-	-	146,600	146,600
Unearned revenue	-	1,098,605	354,013	1,452,618
Compensated absences	814,390	-	-	814,390
Customer deposits payable	1,345,537	-	-	1,345,537
Current portion of bonds payable	-	410,000	178,572	588,572
Current portion of notes and contracts payable	-	-	17,906	17,906
Other current liabilities	40,000	-	28,617	68,617
Current Liabilities (payable from restricted assets):				
Current maturities on revenue bonds	2,695,000	-	-	2,695,000
Revenue bond accrued interest payable	145,987	-	-	145,987
Total Current Liabilities (payable from restricted assets)	2,840,987	-	-	2,840,987
TOTAL CURRENT LIABILITIES	5,888,254	1,545,744	1,224,920	8,658,918
Noncurrent Liabilities:				
Compensated absences	-	77,310	-	77,310
Bonds payable	5,448,825	3,375,000	678,571	9,502,396
Notes payable	997,132	-	106,154	1,103,286
Other	572,918	-	38,138	611,056
TOTAL NONCURRENT LIABILITIES	7,018,875	3,452,310	822,863	11,294,048
TOTAL LIABILITIES	12,907,129	4,998,054	2,047,783	19,952,966
NET ASSETS				
Invested in capital assets net of related debt	33,571,631	2,736,646	4,511,493	40,819,770
Restricted:				
Debt Service	-	222,047	-	222,047
Other activities	2,210,715	780,760	-	2,991,475
Unrestricted	11,078,172	294,556	585,217	11,957,945
TOTAL NET ASSETS	\$ 46,860,518	\$ 4,034,009	\$ 5,096,710	\$ 55,991,237

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

COMPONENT UNITS

COMBINING STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2006

Function / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Board of Power and Light	Peter White Public Library	Nonmajor Component Units	Total
Board of Light and Power Operations	\$ 23,649,051	\$ -	\$ 175,385	\$ 114,984	\$ -	\$ -	114,984
Peter White Public Library Recreation and culture	2,075,320	387,729	-	-	(1,453,982)	-	(1,453,982)
Nonmajor Component Units Operations	2,244,402	1,259,195	-	-	-	(420,003)	(420,003)
TOTAL COMPONENT UNITS	\$ 27,968,773	\$ 1,646,924	\$ 175,385	114,984	(1,453,982)	(420,003)	(1,759,001)
General Revenues:							
Property taxes				726,470	1,042,399	316,865	1,359,264
Interest and investment earnings				30,038	90,142	37,690	854,302
Miscellaneous					19,897	125,527	175,462
TOTAL GENERAL REVENUES				756,508	1,152,438	480,082	2,389,028
CHANGE IN NET ASSETS							
				871,492	(301,544)	60,079	630,027
Net assets, beginning of year				45,989,026	4,335,553	5,036,631	55,361,210
NET ASSETS, END OF YEAR				\$ 46,860,518	\$ 4,034,009	\$ 5,096,710	\$ 55,991,237

The accompanying notes are an integral part of these financial statements.

City of Marquette, Michigan

NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Marquette, Michigan was incorporated February 27, 1871, under the provision of Act 279, PS 1909, as amended (Home Rule City Act). The City operates under a Commissioner – Manager form of government and the services provided to the citizens include: legislative, executive, elections, general services, public safety and fire protection, inspection, public works, sanitation, parking systems, social services, parks and recreation, cultural, conservation of natural resources, planning and other functions. In addition, the City operates four enterprise funds and two internal service funds, which provide water and sewer services, marina services, stormwater management, transportation acquisition and maintenance, transportation rental and building rental.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the City are described below.

(1) REPORTING ENTITY

The City's financial statements present the City (the primary government) and its component units. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the City may or may not be financially accountable and, as such, be includable within the City's financial statements. In accordance with GASB Statement #14, the City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Blended component units, although legally separate entities, are, in substance, part of the government's operations, therefore data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. Each blended and discretely presented component unit has a June 30 year-end.

Fire and Police Retirement System – The City of Marquette is the administrator of a single-employer public employee retirement system established and administered by the City to provide

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

pension benefits for the Fire and Police Department employees. The Fire and Police Retirement System is considered part of the City of Marquette financial reporting entity and is included in the City's financial report as a pension trust fund.

BLENDED COMPONENT UNITS

City of Marquette Building Authority – The City of Marquette Building Authority's governing body consists of the City Manager, Finance Director and City Attorney which are appointed by the governing board of the reporting entity. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings. The reporting entity has guaranteed the debt issues of the Authority.

DISCRETELY PRESENTED COMPONENT UNITS

Proprietary Fund Type

City of Marquette Board of Light and Power – The Board of Light and Power's operating results are held accountable to the government's governing body. The rates for user charges and debt issuance authorizations are approved by the government's governing body. The reporting entity has the responsibility to fund deficits and operating deficiencies. Prior to 1993-94, this entity had been blended with and included in the City's reporting entity as an enterprise fund.

A complete financial statement of the component unit can be obtained directly from the administrative office.

City of Marquette Board of Light and Power
2200 Wright Street
Marquette, MI 49855

Marquette Housing Commission – The Marquette Housing Commission's governing board is appointed by the City Mayor with the confirmation of the commission.

A complete financial statement of the component unit can be obtained directly from the administrative office.

Marquette Housing Commission
316 Pine Street
Marquette, MI 49855

Governmental Fund Type

City of Marquette Downtown Development Authority – The Downtown Development Authority's governing board is appointed by the City's Mayor with the confirmation of the Commission and includes the City Manager of the reporting entity. The reporting entity has the responsibility to fund

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

deficits and operating deficiencies, as well as a guarantee for any debt the Authority issues.

Separate financial statements for the City of Marquette Downtown Development Authority are not developed; however, information can be obtained from the City's Finance Department upon request, located at 300 West Baraga Avenue, Marquette, Michigan 49855.

Peter White Public Library – The Peter White Public Library's governing body is appointed by the City's Mayor with the confirmation of the Commission. The reporting entity has the responsibility to fund deficits and operating deficiencies.

Separately issued financial statements of the Peter White Public Library component unit can be obtained from the City's Finance Department located at 300 West Baraga Avenue, Marquette, Michigan 49855.

GASB Statement #14 requires reasonable separation between the Primary Government (including its blended component units) and its discretely presented component units, both in the financial statements and in the related notes and required supplementary information. Because the discretely presented component units, although legally separate, have been and are operated as if each is part of the primary government, there are limited instances where special note reference or separation will be required. If no separate note reference or categorization is made, the user should assume that information presented is equally applicable.

JOINT VENTURES

As defined in GASB Statement #14, a joint venture is a legal entity or other organization that results from a contractual arrangement (or interlocal agreement) and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The City participates in the following joint ventures:

Marquette Area Wastewater Treatment Facility - The Marquette Area Wastewater Treatment Facility's governing board includes joint representation as appointed by the participating governments' governing bodies. As enumerated in Footnote D, the facility is being accounted for as an equity investment within the reporting entity.

Marquette County Solid Waste Management Authority - The Marquette County Solid Waste Management Authority's governing board includes joint representation as appointed by the participating governments' governing bodies. The reporting entity's representation consists of two of seven members and does not constitute enough representation to exert significant influence over the Authority's operations. The Authority selects management staff, sets user charges, budgets and controls all aspects of its operations and developments. The reporting entity provided its proportionate share of the initial funding and has guaranteed its proportional share of the Authority's outstanding debt.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(2) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's public health and safety, public works, highways and streets, sanitation, social services, recreation and culture, and general government services are classified as governmental activities. The City's water, sewer, stormwater, transportation center, and marina services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

The City allocates indirect costs through an administrative service fee that is charged by the General Fund to the other operating funds to recover the direct costs of General Fund services provided (finance, personnel, purchasing, legal, technology, etc.)

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities. For the most part, the effect of interfund activities has been removed from these statements.

(3) BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS:

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The following fund types are used by the City:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General Fund – The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds – Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).

Component Units – Component units are used to account for the discretely presented component units which follow governmental fund accounting guidelines.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds – Internal Service Funds are used to finance, administer and account for the financing of equipment and building purchases and maintenance services provided by one department or agency to other departments or agencies of the governmental unit or to other governmental units on a cost reimbursement basis.

Component Units – Component units are used to account for the discretely presented component units which follow proprietary fund accounting guidelines.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Major Street and Trunkline Fund** accounts for the receipt of allocated state shared gas and weight taxes. The expenditure of these funds is restricted to Federal and State trunklines and certain "mile" roads designated as major under contractual agreement with the State of Michigan.

The **Local Street Fund** accounts for the allocated state shared gas and weight taxes for remaining City roads.

The **Construction Fund** accounts for the development, improvement and rehabilitation of City infrastructure.

The City reports the following major proprietary funds:

The **Water Supply and Sewage Disposal Fund** accounts for the activities related to water treatment and distribution, sanitary sewer operation and booster stations, and billing for services.

The **Stormwater Utility Fund** accounts for the management of stormwater related activities including billing, maintenance and construction.

The City's internal service funds are presented in the proprietary funds financial statements. Because the principal users of the internal services are the City's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity (general government, public works, etc.)

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide statements. The Special Activities Private-Purpose Trust Fund is used to account for the

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

contributions from private sources restricted for special projects. The Fire-Police Retirement System Fund is used to account for the accumulation of resources to be used for the retirement annuity payments at appropriate amounts and times in the future. The Agency Fund is used to record the collection and payment of property taxes billed and collected by the City on behalf of the County, the School Districts, and the Intermediate School District.

(4) BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting.

Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

All enterprise funds, private-purpose trust funds, and pension trust funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled electric, water, and sewer services are accrued as revenue in the Component Unit and Water Supply and Sewage Disposal Funds based upon estimated consumption at year-end.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. Sales taxes collected and held by the State at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

(5) FINANCIAL STATEMENT AMOUNTS

Budgets and Budgetary Accounting – The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On the third Monday in April, the City Manager submits to the City Commission a proposed operating budget for the ensuing fiscal year commencing July 1 in accordance with Section 8.2 of the City Charter. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to its adoption, a public hearing is conducted at City Hall to obtain taxpayer comments.
3. No later than the third Monday in May, the budget is adopted by the City Commission in accordance with the provisions of Section 8.6 of the City Charter.
4. The City Commission adopts the budget by functional categories as presented in the basic financial statements. Any transfers of appropriation between functions must be approved by the City Commission. All unexpended appropriations lapse at fiscal year-end.
5. Formal budgetary integration is employed as a management control device for the General Fund, all Special Revenue Funds, Debt Service Funds and Capital Project Funds. Informational budget summaries only are adopted for the Enterprise and Internal Service Funds. Such funds are not covered under the State of Michigan's Public Act 621 nor the City's General Appropriations Act.
6. The City Commission has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. Once originally adopted, the budget was formally amended two times during the fiscal year.
7. The legally adopted budgets for the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds and the informational summaries for the Enterprise and Internal Service Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Cash Equivalents – For the purposes of balance sheet classification and the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Restricted assets which contain cash equivalents are included in analyzing the effect on cash and cash equivalents in the Statement of Cash Flows.

Inventory – Inventory is valued at cost using both the first-in, first-out (FIFO) method and the average cost method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. The cost of construction in progress includes interest costs incurred during the construction period. The amount of capitalized interest is determined using the weighted average amount of accumulated expenditures multiplied by the interest rate for the obligation incurred specifically to finance the construction of the asset.

Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements and proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land improvements	20 years
Building, structures and improvements	50 years
Equipment	5-35 years
Water and Sewage System	25-75 years
Electric System – Component Unit	5-80 years
Stormwater System	25 years
Infrastructure	20-50 years

The cost of normal maintenance and repairs is charged to operations as incurred. Renewals and betterments are capitalized and depreciated over the remaining useful lives of the related properties.

A portion of the depreciation provision for the electric component unit is being charged to the cost of fuel for those vehicles which groom and work the coal pile.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Long-Term Liabilities – In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using straight line amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt received, are reported as debt service.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

Property Taxes – Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied no later than the third Monday in May and payable on July 1. Taxes receivable are recorded when levied, as the legal right to receive exists. However, such revenues are not normally received until after the 60 day period following the fiscal year-end. Accordingly, deferred revenue is being recognized for such amounts.

The City bills and collects its own property taxes and also the taxes for the local school district, the Intermediate School District, and the County. Collections of local school taxes, Intermediate School District taxes, and County taxes, and their remittance are accounted for in the Agency Fund.

Worker's Compensation – The City's policy is to pay worker's compensation premiums as incurred. Any additional premiums or refunds resulting from experience adjustments are recorded in the year made or received, respectively.

Comparative Data – Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of the changes in the City's financial position and operations.

Compensated Absences – The City accrues accumulated unpaid vacation, sick leave, and benefit days and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Interfund Activity – Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a result of the reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Implementation of New Accounting Principles – In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments (GASB No. 34.)* The City has elected to utilize the infrastructure transition option in the implementation of GASB No. 34 and therefore deferred the retroactive reporting of the general and infrastructure reporting provisions of the Statement until the current year. The restatement of net assets associated with this implementation are discussed in footnote Y.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets for the primary government and its component units from the Statement of Net Assets:

	Primary Government	Component Units	Fiduciary Funds	Total
Unrestricted:				
Cash and cash equivalents	\$6,025,038	\$4,257,031	\$3,738,951	\$14,021,020
Investments	2,797,241	7,633,985	23,740,316	34,171,542
	<u>8,822,279</u>	<u>11,891,016</u>	<u>27,479,267</u>	<u>48,192,562</u>
Restricted:				
Cash and cash equivalents	899,647	2,853,703	-	3,753,350
Investments	2,243,604	2,198,000	-	4,441,604
	<u>3,143,251</u>	<u>5,051,703</u>	<u>-</u>	<u>8,194,954</u>
TOTALS	<u>\$11,965,530</u>	<u>\$16,942,719</u>	<u>\$27,479,267</u>	<u>\$56,387,516</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State law does not require and the City does not have a deposit policy for custodial credit risk. The carrying amounts of the primary government, component unit and fiduciary funds deposits with financial institutions was \$17,774,370 and the bank balance was \$23,582,912. The bank balance is categorized as follows:

Amount insured by the FDIC or uncollateralized with securities held by the City in its name	\$2,156,882
Amount collateralized with securities held by the pledging financial institutions trust department in the City's name:	
Collateralized and uninsured	21,426,030
	<u>\$23,582,912</u>

NOTE B – DEPOSITS AND INVESTMENTS (Continued):

Investments

As of June 30, 2006 the City had the following investments.

		Investment Maturities (In years)			
	Fair Value	Less than 1	1-5	6-10	More than 10
PRIMARY GOVERNMENT:					
Unrestricted Investments:					
U.S. Government Agencies	\$2,797,241	\$476,667	\$2,320,574	\$-	\$-
Restricted Investments:					
U.S. Government Agencies	2,243,604	2,243,604	-	-	-
TOTAL INVESTMENTS	\$5,040,845	\$2,720,271	\$2,320,574	\$-	\$-
COMPONENT UNITS:					
U.S. Treasury Notes	\$2,243,009	\$2,243,009	\$-	\$-	\$-
U.S. Government Agencies	328,637	-	328,637	-	-
Mutual Bond Funds	379,139	318,809	60,330	-	-
Mutual Equity Funds	466,631	466,631	-	-	-
Time Deposits	6,414,569	5,835,455	579,114	-	-
TOTAL INVESTMENTS	\$9,831,985	\$8,863,904	\$968,081	\$-	\$-
FIDUCIARY FUNDS:					
U.S. Government Agencies	\$4,947,662	\$550,985	\$1,715,212	\$1,951,697	\$729,768
Domestic Corporation Bonds	2,622,306	100,171	2,028,771	236,647	256,717
Common, Pooled Fund	16,168,899	16,168,899	-	-	-
Government National Mortgage Association	1,449	15	-	-	1,434
TOTAL INVESTMENTS	\$23,740,316	\$16,820,070	\$3,743,983	\$2,188,344	\$987,919

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City's investments. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes (Act 196, PA 1997) authorize the City to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

NOTE B – DEPOSITS AND INVESTMENTS (Continued):

Michigan statute (Act 314, PA 1965, as amended) authorizes the pension trust to invest in, with certain restrictions, stocks and mutual funds up to 60% of the system's assets; investments in the general or separate account of life insurance companies; fixed income securities; investments in leased property; direct investments in property; investments in real estate loans; investments in small business or venture capital firms in Michigan; surplus funds pooled accounts; and bank or trust company collective investment funds.

The City has no investment policy that would further limit its investment choices. The City's investments in Mutual Bond Funds are rated from A1 to AAA by Moody's. Ratings are not required for the City's investment in U.S. Government Agencies or equity-type funds. The City's investments are in accordance with statutory authority.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. There were no investments subject to concentration of credit risk disclosure.

NOTE C – RESTRICTED ASSETS – PROPRIETARY FUNDS AND COMPONENT UNIT:

The enterprise fund has certain cash investment balances classified as restricted assets since their use is limited by applicable bond indentures and ordinances. The major provisions of the ordinances covering the bond indentures of the component unit (Board of Light and Power) and the Water Supply and Sewage Disposal Fund are as follows:

1. ***Rates*** – The component unit fund only shall charge and collect rates necessary to provide net revenues sufficient to cover annual debt service not less than 1.3 times.
2. ***Receiving Fund*** – All system revenues will be paid into this fund, including interest income, to the extent interest income is not retained in the construction or bond reserve funds.
3. ***Operation and Maintenance Fund*** – Monthly transfers must be made from the Receiving Fund, which is used for initial deposit of all receipts, to the Operation and Maintenance Fund (included under current assets) to cover payment of next month's estimated operating expenses.
4. ***Bond Reserve Fund*** – Monthly transfers must be made to the Bond Reserve Fund in an amount equal to the maximum annual principal and interest on the revenue bonds.
5. ***Replacement/Maintenance Fund*** – Monthly transfers are to be made as necessary, up to required levels, to make major repairs and replacements to the systems.
6. ***Bond and Interest Redemption*** – Transfers will be made from the Receiving Fund in amounts sufficient to pay the current bond and interest maturities.

NOTE C – RESTRICTED ASSETS – PROPRIETARY FUNDS AND COMPONENT UNIT (Continued):

7. ***Bond Escrow Fund*** – Transfers were made to the Bond Escrow Fund to provide for the normal retirement, including interest, of the capitalized leases, and revenue bond issues. Transfers will be made to the Bond and Interest Redemption Fund as the obligations become due.
8. ***Vacation, Sick Leave and Benefit Days Reserve*** – Transfers will be made to the vacation and sick leave reserve to provide funding for accrued vacation, sick leave, and benefit day liabilities to be paid to employees upon retirement or termination.
9. ***Tax Payment Fund*** – Transfers will be made to the Tax Payment Fund in amounts sufficient to make payments in lieu of taxes to the City of Marquette. Transfers into this fund are subordinate to payments of the above listed funds.
10. ***Plant Replacement – Risk Retention Fund*** – Transfers will be made, as the Board determines necessary to the fund, to finance major system repairs or replacements and provide for potential claims not covered by existing insurance policies. Transfers to this fund are subordinate to transfers to the tax payment fund noted above.
11. ***Plant Improvement Fund*** – Transfers will be made to the Plant Improvement Fund as the Board deems necessary for improvements, enlargements and extensions of the system. Transfers to this fund are subordinate to transfers to the Plant Replacement Fund.
12. Transfers from the Water Supply and Sewage Disposal Fund may be made to the General Fund up to 40% of the surplus remaining at the end of the preceding fiscal year.
13. The balance of revenues remaining after the above requirements are met shall, at the option of the governing agency, be transferred to the Bond Reserve Fund for the purpose of calling bonds.

The City Charter allows the transfer to the General Fund of 50% of the preceding year's net income of public utilities. The amount of net income not transferred to the General Fund must be held in a reserve account for future capital outlay. Expenditures shall be charged to the reserve account.

The composition of restricted asset accounts for the respective primary government enterprise and internal service funds and the respective component units are as follows:

	Water Supply And Sewage Disposal Fund	Marina Fund	Stormwater Utility Fund	Motor Vehicle Equipment Fund	Municipal Service Center Fund	Primary Government Total	Component Units
Cash and cash equivalents	\$763,323	\$-	\$44,851	\$82,952	\$8,521	\$899,647	\$2,853,703
Investments	<u>1,024,214</u>	<u>343,184</u>	<u>259,769</u>	<u>616,437</u>	<u>-</u>	<u>2,243,604</u>	<u>2,198,000</u>
TOTALS	<u>\$1,787,537</u>	<u>\$343,184</u>	<u>\$304,620</u>	<u>\$699,389</u>	<u>\$8,521</u>	<u>\$3,143,251</u>	<u>\$5,051,703</u>

NOTE D – JOINT VENTURE – INVESTMENT IN WASTEWATER PLANT:

The City has entered into a contract with the adjacent Townships of Chocolay and Marquette through the County of Marquette to construct and operate a wastewater plant known as the Marquette Area Wastewater Treatment Facility. Under the original agreement the City owned 79.8% of the facility, the Township of Marquette owned 5.5%, and the Township of Chocolay owned 14.7%. The cost of construction amounted to approximately \$12,000,000 and was financed by Federal and State grants for 80% of the cost and \$2,500,000 general obligation bonds issued by Marquette County. The full faith and credit of the City (refer to Note E) and the two Townships have been pledged. The total investment in the Facility at June 30, 2006 by the City is \$2,992,555, including local contributions and its proportionate share of the net equity of the facility.

In the Spring of 1993, the City of Marquette and Chocolay Township each sold 2.25% of capacity to Marquette Township. The new ownership percentages are; the City of Marquette owns 77.55%, Chocolay Township owns 12.45%, and Marquette Township owns 10.00%.

The City utilizes the equity method of accounting for the activity in its investment in the Facility. Under the equity method, the investment is adjusted for any additional capital investments made and its proportionate share of the Facility's results of operations.

As required by Governmental Accounting Standards Board Statement # 14, the City's equity interest is shown as an asset in the Water Supply and Sewage Disposal Fund. The separately issued audited financial statements can be obtained at the City's Finance Department located at 300 West Baraga Avenue, Marquette, Michigan 49855.

A summary of condensed financial information of the Facility, in the aggregate, is as follows:

Assets	\$5,713,193
Liabilities	659,418
Equity	5,053,775
Revenues	1,211,520
Expenses	1,643,593
Other income	45,642
Loss from operations	(432,073)
City's share of net gain	18,219
City's share of capital investments	125,090

NOTE E – CAPITALIZED LEASE OBLIGATIONS:

The City has a lease obligation with the County of Marquette as a result of the construction of the pumping station and sanitary sewers in conjunction with the construction of the Marquette Area Wastewater Treatment Facility. Accordingly, the City's lease obligation corresponds to its share of the interest and principal payments required to retire the bond issue.

NOTE E – CAPITALIZED LEASE OBLIGATIONS (Continued):

On July 28, 1998, the County of Marquette issued \$1,485,000 Marquette County Refunding Bonds Unlimited Tax Series 1998 to refund in part the Marquette County Wastewater Treatment Bonds, Series 1978. This refunding bond issue changed the City's lease obligation with the County of Marquette from 76.2% to 75.5% of the total debt resulting in a cumulative net savings of \$60,257 for the City. The advance refunding also resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$47,336. This difference, reported in the accompanying financial statements as deferred amounts on refunding, is being charged to operations through the year 2008 using the effective-interest method.

The carrying amount of the City's portion of the project at June 30, 2006 is \$362,598. The City will finance debt requirements with the revenues of the water and sewer system. Data relating to the above agreement is summarized below:

	<u>Pump Station and Sanitary Sewers</u>
Interest Rate	4.3 – 4.4%
Terms of principal maturities	December 1, 1998 to December 1, 2008

Annual maturities on the Water Supply and Sewage Disposal Fund capitalized lease obligations are as follows:

	<u>Refunded July 28, 1998 Capitalized Lease Obligations</u>
Principal and interest maturities:	
Year Ending June 30:	
2007	\$133,980
2008	128,783
2009	123,525
Minimum lease payments	<u>386,288</u>
Less: Amount representing interest at the City's incremental borrowing rate of interest	<u>(23,690)</u>
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	<u>\$362,598</u>

NOTE F – LONG – TERM DEBT:

The following is a summary of long-term debt transactions of the primary government and all component units for the year ended June 30, 2006:

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
BUSINESS-TYPE ACTIVITIES:				
Water Supply and Sewage Disposal Fund:				
Lakeshore Park Place Note	\$131,573	\$-	\$19,296	\$112,277
State Act 94 Clean Water Assistance Loan	3,470,000	-	140,000	3,330,000
4.3-4.4%, 1998 Refunded Capitalized Lease Obligations	483,464	-	120,866	362,598
2.0% Revenue Bonds, Series 2004A	135,000	-	65,000	70,000
2.0%-4.1% Refunding Revenue Bonds	5,365,000	-	565,000	4,800,000
Accrued Compensated Absences	163,924	-	29,189	134,735
Marina Fund:				
2.0% Revenue Bonds, Series 2004A	670,000	-	70,000	600,000
Stormwater Utility Fund:				
4.1-5.0%, Revenue Bonds, Series 1995	<u>1,295,000</u>	<u>-</u>	<u>230,000</u>	<u>1,065,000</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$11,713,961</u>	<u>\$ -</u>	<u>\$1,239,351</u>	<u>\$10,474,610</u>
GOVERNMENTAL ACTIVITIES:				
Lakeshore Park Place Note	\$131,621	\$-	\$19,303	\$112,318
GEMS Installment Note	244,732	-	44,646	200,086
State Infrastructure Bank Note	1,160,227	-	82,873	1,077,354
2003 General Obligation Bonds	3,800,000	-	150,000	3,650,000
2005 General Obligation Bonds	5,000,000	-	-	5,000,000
Department of Transportation Bonds	1,400,000	-	325,000	1,075,000
1998 Building Authority Refunding Bonds	4,180,000	-	175,000	4,005,000
1998 Building Authority Bonds - Lakeview Arena	340,000	-	105,000	235,000
Marquette County Solid Waste Landfill Authority Bonds, Series 1988 (Revised July 30, 1994)	75,791	-	16,754	59,037
Accrued Compensated Absences	<u>978,390</u>	<u>-</u>	<u>1,301</u>	<u>977,089</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$17,310,761</u>	<u>\$ -</u>	<u>\$919,877</u>	<u>\$16,390,884</u>
COMPONENT UNITS:				
Board of Light and Power Electric Utility				
4.8 - 5.125% Revenue Bonds, Series 1993	\$11,928,612	\$-	\$3,784,787	\$8,143,825
Peter White Public Library				
1997 General Obligation Bonds - Library Improvement	3,510,000	-	195,000	3,315,000
1998 Building Authority Bonds - Library	685,000	-	215,000	470,000
Accrued compensated absences	86,404	-	9,094	77,310
Downtown Development Authority:				
Note payable - tractor	17,676	-	11,637	6,039
2001 Tax Increment Bonds	285,714	-	71,428	214,286
2005 Tax Increment Bonds	<u>750,000</u>	<u>-</u>	<u>107,143</u>	<u>642,857</u>
TOTAL COMPONENT UNITS	<u>\$17,263,406</u>	<u>\$ -</u>	<u>\$4,394,089</u>	<u>\$12,869,317</u>

NOTE F – LONG – TERM DEBT (Continued):

The City's component units (Board of Light and Power and Peter White Library), the Marina, Water Supply and Sewage Disposal Fund revenue bonds, general obligation bonds, and capital lease obligations outstanding are recorded in the respective Component Unit and Enterprise Fund. The Component Units' debt and the Enterprise Fund debt are expected to be repaid from proprietary revenues.

As of June 30, 2000, the City had a secured credit agreement with maximum borrowings of \$750,000 and an interest rate of 4.88% per annum for the purpose of making certain street and utility improvements along Lakeshore Boulevard in conjunction with the Lakeshore Park Place special assessment project. At June 30, 2000, the amount initially borrowed was \$399,926 of which \$199,926 was recorded in the Water Supply and Sewage Disposal Fund and \$200,000 was recorded as Governmental Activities long-term debt. The note will be paid off in ten consecutive and equal annual principal and interest payments on the outstanding principal amounts due each year, beginning August 5, 2001.

On April 1, 1996, the City of Marquette, Michigan issued \$6,435,000 Water Supply and Sewage Disposal System Revenue Bonds, Series 1996. The Water Supply and Sewage Disposal System Revenue Bonds were issued for the purpose of financing the cost of expanding and making certain improvements to the water supply and filtration system of the City in accordance with a resolution adopted by the City Commission of the City on March 11, 1996, pursuant to Act 94, Public Acts of Michigan, 1933, as amended.

On November 1, 1995, the City of Marquette, Michigan, issued \$2,740,000 Stormwater Revenue Bonds. The Stormwater Revenue Bonds were issued for the purpose of acquiring and constructing certain stormwater utility improvements in the City in accordance with a resolution adopted by the City Commission of the City, on August 28, 1995 pursuant to Act 94, Public Acts of Michigan, 1934, as amended.

On April 8, 2002, the City issued \$367,859 of GEMS Installment Notes for the purpose of purchasing computer equipment and software to be used for the City's general finance operations. The notes will be paid off in eight annual principal installments beginning April 1, 2004 and ending on April 1, 2010. Interest shall be payable semi-annually beginning October 1, 2002 at a rate equal to 4.60% per annum.

On December 17, 1992, the City of Marquette, Michigan, through the Michigan Municipal Bond Authority, issued \$1,790,000 Michigan Transportation Fund Bond, Series 1992. The Michigan Transportation Bonds were issued for the purpose of making certain street improvements in the City in accordance with a resolution adopted by the City Commission of the City, on November 3, 1992, pursuant to the provisions of Act 175, Public Acts of Michigan, 1952, as amended. The Department of Transportation bonds are for the purpose of constructing roadway improvements and were used in part for the downtown renovation/construction project and in part for match purposes on a Small Cities Grant Project. The bonds will be paid by the General Fund through a transfer of monies to the Major and Local Street Funds.

NOTE F – LONG – TERM DEBT (Continued):

On June 24, 1999, the City issued \$2,480,000 in Michigan Transportation Fund Refunding Bonds, Series 1999 with interest rates ranging from 3.5% to 4.75% to advance refund \$2,820,000 of outstanding "Michigan Transportation Fund Bonds, Series 1986" dated September 25, 1986 (the "1986 Prior Bonds"); the "Michigan Transportation Fund Bonds, Series 1989" dated August 10, 1989 (the "1989 Prior Bonds"); and the "Michigan Transportation Fund Bonds, Series 1999" 7.1%, maturing in the years 1999 through 2009. There were no net proceeds (after payment of \$200,000 in underwriting fees, insurance, and other issuance costs). As a result, the 1986, 1989, and 1992 issue bonds maturing in fiscal years 1999 through 2009 are considered to be defeased and the liability for those bonds has been removed from Governmental Activities long-term debt balance. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2006, \$1,050,000 of bonds outstanding are considered defeased.

In August of 1991, the City of Marquette, Michigan, through the Michigan Municipal Bond Authority, issued \$5,200,000 Building Authority Bonds. The City of Marquette Building Authority Municipal Obligations were issued pursuant to Act No. 31, of the Public Acts of 1948, as amended (AAct 31") for the construction of a Municipal Service Center. The Municipal Service Center houses administrative offices and employee work areas for the departments of Engineering, Public Works, Water Supply and Sewage Disposal, Parks & Recreation, and Motor Pool, provides storage and warehousing for supplies and materials, and equipment storage and maintenance areas, contains a fuel depot and provides parking areas and outside materials storage. The principal of and interest on the City of Marquette Building Authority Municipal Obligations have been paid off, and were secured by a statutory lien upon, cash rental payments to be paid by the City of Marquette to the City of Marquette Building Authority pursuant to a Contract of Lease between the parties for the Municipal Service Center constructed with the proceeds of the City of Marquette Building Authority Municipal Obligations. The full faith and credit of the City of Marquette has been pledged for the payment of the cash rental under the Contract of Lease. The City of Marquette has agreed to levy ad valorem taxes each year to the extent necessary for the payment of such cash rentals, subject to applicable constitutional, statutory and charter limitations.

On June 16, 1998, the City issued \$4,945,000 in Building Authority Refunding Bonds, Series 1998 with interest rates ranging from 3.8% to 5.125% to advance refund \$4,455,000 of outstanding Building Authority Bonds, Series 1991 with interest rates ranging from 6.00% to 6.875% maturing in fiscal years 2002 through 2021. The 1998 Issue net proceeds of \$4,790,820 (after payment of \$154,180 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service interest and principal payments on the 1991 Issue refunded bonds. As a result, the 1991 Issue bonds maturing in fiscal years 2002 through 2021 are considered to be defeased and the liability for those bonds has been removed from the Governmental Activities long-term debt balance.

Also, the irrevocable trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2006, \$3,845,000 of bonds outstanding are considered defeased.

NOTE F – LONG -TERM DEBT (Continued):

The 1998 Building Authority Bonds - Lakeview Arena were issued for the purpose of defraying the cost of renovating, constructing, furnishing and equipping improvements to the existing Lakeview Arena. The bonds were issued pursuant to the provisions of Act 31 of P.A. 1948, as amended. The Bond's principal and interest are payable from lease payments required to be paid by the City to the Building Authority pursuant to the Contract of Lease between the City and the Authority.

On November 3, 1988, the City of Marquette authorized the sale of Marquette County Solid Waste Landfill Authority Bonds, Series 1988, in the amount of \$2,675,000 to pay for part of the cost of acquiring, constructing, and establishing a sanitary landfill and a solid waste management system. The City's proportionate share of the bonds is 31 percent or \$798,250. The City's portion of the bond's principal and interest are payable from General Fund tax levies. In July of 1993, the Authority advance refunded a portion of this issue maturing in fiscal years 1997-2009 with the 1993B Issue, Refunding Bonds.

On December 27, 1997, the City of Marquette, Michigan, issued \$4,500,000 General Obligation Unlimited Tax Library Improvement Bonds for the purpose of defraying a portion of the cost of expanding and renovating the Peter White Public Library located in the City of Marquette. The bonds were issued pursuant to the provisions of Act 227, Public Acts of Michigan, 1985, as amended. The full faith and credit of the City of Marquette are pledged for the payment of the principal and of the interest on the bonds when due.

On June 16, 1998, the City of Marquette Building Authority, issued \$2,000,000 Building Authority Bonds (Peter White Public Library) Series 1998 for the purpose of defraying the cost of renovating, constructing, furnishing and equipping improvements to the existing Peter White Public Library. The bonds were issued pursuant to the provisions of Act 31 of P.A. 1948, as amended. The bond's principal and interest are payable from lease payments required to be paid by the City of Marquette to the Building Authority pursuant to the Contract of Lease between the City and the Authority.

When all of the Building Authority Bonds have been retired the Authority shall convey all rights, title, and interest to the City of Marquette.

Pursuant to Section 162.2 of Act 197, Public Acts of Michigan, as amended on October 11, 2001, the Marquette Downtown Development Authority (DDA) issued Tax Increment Bonds in the amount of \$500,000 at a 4.6% interest rate designated as Tax Increment Bonds, Series 2001, to finance a portion of the costs of certain public improvements within the downtown district. The principal and interest payable on the bonds shall be repaid solely from tax increment revenues received by the DDA.

On July 25, 2003, the City issued \$1,243,100 of State Infrastructure Bank Notes for the purpose of financing transportation infrastructure improvements through the County Road (CR) 550 Flood Repair and Spring Street Reconstruction project. The notes will be paid off in 15 annual principal installments beginning July 25, 2004 and ending July 25, 2019, plus interest at the rate of zero percent.

NOTE F – LONG -TERM DEBT (Continued):

On December 23 2003, the City issued \$3,935,000 in General Obligation Limited Tax Bonds with interest rates ranging from 2.0% to 4.55%. The Bonds were issued pursuant to the resolution duly adopted by the City on November 24, 2003 for the purpose of reimbursing the City for certain costs relating to the acquisition of waterfront property for the City's park system, and paying the costs of designing, engineering, acquiring, preparing, constructing and equipping various park improvements.

On March 9, 2004, the City issued \$3,470,000 of State of Michigan Act 94 Clean Water Assistance Loan for the purpose of rehabilitation of the Hawley Street, Pine Street, Lake Street, and Baraga Avenue sewage pump stations. The loan will be paid off in annual principal and interest payments over 20 years with an interest rate of 2.125%.

On November 4, 2003, the City issued \$5,990,000 in Water and Sewer Refunding Revenue Bonds with an interest rate ranging from 2.0% to 4.1% to advance refund \$5,820,000 of outstanding 1996, 1977 and 1989 Water and Sewer Revenue Bonds with interest rates ranging 3.85% to 7.0%. The net proceeds of \$5,946,012 (after payment of \$122,927 in underwriting fees, insurance, and other issuance costs plus an additional \$11,484 in Prior Issue Debt Service fund monies and a \$67,455 reoffering premium) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all callable future debt service payments on the 1996, 1977 and 1989 Water and Sewer Revenue bonds. As a result, the 1996, 1977 and 1989 Water and Sewer Revenue bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. On June 30, 2006, \$4,765,000 of bonds outstanding are considered defeased.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$170,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2016 using the effective-interest method.

On February 18, 2004, the City issued \$140,000 in Water and Sewer Refunding Revenue Bonds, Series 2004A with an average interest rate of 2.0 percent to advance refund \$125,000 of outstanding Water and Sewer Revenue Bonds, Series 1986 with an interest rate ranging 6.1% to 9.5%. The net proceeds of \$125,365 (after payment of \$14,821 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future callable debt service payments on the Water and Sewer Revenue Bonds, Series 1986. As a result, the 1986 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. On June 30, 2006, all of bonds outstanding are considered defeased.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$15,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2016 using the effective-interest method.

NOTE F – LONG -TERM DEBT (Continued):

On February 18, 2004, the City issued \$690,000 in Marina Refunding Revenue Bonds, Series 2004A with an average interest rate of 2.0 percent to advance refund \$655,000 of outstanding Marina Revenue Bonds, Series 1994 with an interest rate ranging 4.75% to 5.8%. The net proceeds of \$669,508 (after payment of \$18,512 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future callable debt service payments on the Marina Revenue Bonds, Series 1994. As a result, the 1994 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. On June 30, 2006, \$595,000 of bonds outstanding are considered defeased.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$35,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2014 using the effective-interest method.

On May 26, 2005, the City issued \$5,000,000 in General Obligation Limited Tax Bonds with interest rates ranging from 3.27% to 4.70%. The Bonds were issued pursuant to the resolution duly adopted by the City on January 31, 2005 for the purpose of paying all or part of the cost of acquiring, improving and equipping real property within and without the City for use for authorized purposes.

Pursuant to Section 16(2) of Act 197, Public Acts of Michigan, 1975, as amended, on April 29, 2005 the Marquette Downtown Development Authority (DDA) issued Tax Increment Bonds in the amount of \$750,000 at a 3.65% interest rate designated as Tax Increment Bonds, Series 2005, to finance a portion of the costs of certain public improvements within the downtown district. The principal and interest payable on the bonds shall be repaid solely from tax increment revenues received by the DDA.

Annual maturities on Component Unit debt are as follows:

Maturities	1997 G.O. Bonds Library Improvement	1998 Building Authority Bonds - Library	Downtown Development Authority Note Payable	Downtown Development 2001 Tax Increment Bonds	Downtown Development 2005 Tax Increment Bonds	Board of Light & Power Revenue Bonds Series 1001 A
Year Ending June 30:						
2007	\$210,000	\$225,000	\$6,039	\$71,429	\$107,143	\$2,695,000
2008	220,000	245,000	-	71,429	107,143	2,790,000
2009	230,000	-	-	71,428	107,143	2,700,000
2010	240,000	-	-	-	107,143	-
2011	-	-	-	-	107,143	-
2012-2016	1,390,000	-	-	-	107,142	-
2017-2019	1,025,000	-	-	-	-	-
Discount	-	-	-	-	-	(41,175)
Principal	3,315,000	470,000	6,039	214,286	642,857	8,143,825
Interest	1,102,209	33,826	114	13,070	82,125	451,606
TOTAL	<u>\$4,417,209</u>	<u>\$503,826</u>	<u>\$6,153</u>	<u>\$227,356</u>	<u>\$724,982</u>	<u>\$8,595,431</u>

NOTE F – LONG -TERM DEBT (Continued):

On October 11, 2001 the Board of Light and Power issued Revenue Bonds in the amount of \$21,815,150 with interest rates ranging from 4.8 – 5.125% to finance the costs of improvements to its physical plant. The principal and interest payable on the bonds shall be repaid solely from revenues generated by the system.

Annual maturities on the Business-Type Activities debts are as follows:

Year Ending June 30,	Stormwater Utility Fund	Water Supply and Sewage Disposal Fund					Marina Fund
	11/01/95 Revenue Bonds	Lakeshore Park Place Note	State Act 94 Clean Water Assistance Loan	12/01/98 Capitalized Lease Obligations	2/18/04 Revenue Bonds	11/04/03 Revenue Bonds	2/18/04 Revenue Bonds
2007	\$245,000	\$20,286	\$145,000	\$120,866	\$70,000	\$570,000	\$70,000
2008	255,000	21,289	145,000	120,866	-	590,000	70,000
2009	275,000	22,343	150,000	120,866	-	480,000	75,000
2010	290,000	23,448	155,000	-	-	410,000	70,000
2011	-	24,911	155,000	-	-	410,000	75,000
2012	-	-	160,000	-	-	430,000	75,000
2013	-	-	165,000	-	-	450,000	80,000
2014	-	-	165,000	-	-	470,000	85,000
2015	-	-	170,000	-	-	485,000	-
2016	-	-	175,000	-	-	505,000	-
2017	-	-	180,000	-	-	-	-
2018	-	-	180,000	-	-	-	-
2019	-	-	185,000	-	-	-	-
2020	-	-	190,000	-	-	-	-
2021	-	-	195,000	-	-	-	-
2022	-	-	200,000	-	-	-	-
2023	-	-	200,000	-	-	-	-
2024	-	-	205,000	-	-	-	-
2025	-	-	210,000	-	-	-	-
Principal	1,065,000	112,277	3,330,000	362,598	70,000	4,800,000	600,000
Interest	110,375	17,155	752,356	23,690	700	980,855	85,975
	<u>\$1,175,375</u>	<u>\$129,432</u>	<u>\$4,082,356</u>	<u>\$386,288</u>	<u>\$70,700</u>	<u>\$5,780,855</u>	<u>\$685,975</u>

NOTE F - LONG-TERM DEBT (Continued):

Annual maturities on the Governmental Activities are as follows:

Year Ending June 30,	Lakeshore Park Place Note	GEMS Installment Note	State Infrastructure Bank Note	2003 General Obligation Bonds	2005 General Obligation Bonds	Transportation Bond Fund Loans Payable	1998 Building Authority Bonds, Refunding	1998 Building Authority Bonds, Lakeview Arena	Marquette County Sanitary Landfill Authority Bonds Series 1988
2007	\$ 20,293	\$ 46,699	\$ 82,873	\$ 150,000	\$ -	\$ 340,000	\$ 185,000	\$ 110,000	\$ 17,950
2008	21,297	48,847	82,873	170,000	135,000	355,000	190,000	125,000	19,546
2009	22,351	51,095	82,873	175,000	145,000	185,000	205,000	-	21,541
2010	23,457	53,445	82,873	175,000	160,000	195,000	210,000	-	-
2011	24,920	-	82,873	155,000	170,000	-	225,000	-	-
2012	-	-	82,873	190,000	185,000	-	235,000	-	-
2013	-	-	82,873	190,000	200,000	-	245,000	-	-
2014	-	-	82,873	200,000	215,000	-	260,000	-	-
2015	-	-	82,873	210,000	235,000	-	275,000	-	-
2016	-	-	82,873	220,000	255,000	-	285,000	-	-
2017	-	-	82,873	230,000	270,000	-	300,000	-	-
2018	-	-	82,873	235,000	290,000	-	320,000	-	-
2019	-	-	82,878	245,000	315,000	-	335,000	-	-
2020	-	-	-	260,000	340,000	-	355,000	-	-
2021	-	-	-	270,000	360,000	-	380,000	-	-
2022	-	-	-	280,000	390,000	-	-	-	-
2023	-	-	-	295,000	415,000	-	-	-	-
2024	-	-	-	-	445,000	-	-	-	-
2025	-	-	-	-	475,000	-	-	-	-
Principal	112,318	200,086	1,077,354	3,650,000	5,000,000	1,075,000	4,005,000	235,000	59,037
Interest	17,161	23,546	-	1,526,650	2,492,325	86,421	1,809,974	17,150	7,779
Total	\$ 129,479	\$ 223,632	\$ 1,077,354	\$ 5,176,650	\$ 7,492,325	\$ 1,161,421	\$ 5,814,974	\$ 252,150	\$ 66,816

NOTE F – LONG -TERM DEBT (Continued):

Annual principal and interest requirements on indebtedness are as follows:

	Governmental Activities		Business Type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$952,815	\$623,377	\$1,241,152	\$291,975	\$3,273,436	\$460,486
2008	1,147,563	582,646	1,202,155	287,828	3,433,572	337,453
2009	887,860	539,682	1,123,209	245,667	3,108,571	207,511
2010	899,775	505,162	948,448	206,961	347,143	139,685
2011	657,793	474,343	664,911	178,691	357,143	123,889
2012-2016	3,814,365	1,965,073	3,415,000	549,184	1,572,142	377,362
2017-2021	4,753,624	1,100,973	930,000	156,401	700,000	36,565
2022-2026	2,300,000	189,752	815,000	54,399	-	-
Totals	<u>\$15,413,795</u>	<u>\$5,981,008</u>	<u>\$10,339,875</u>	<u>\$1,971,106</u>	<u>\$12,792,007</u>	<u>\$1,682,951</u>

NOTE G – INTERFUND BALANCES:

The amounts of interfund receivables and payables are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
PRIMARY GOVERNMENT:			
General	\$446,622	Major Street	\$168,669
		Local Street	55,607
		Nonmajor governmental	53,673
		Nonmajor enterprise	168,673
Subtotal	<u>446,622</u>	Subtotal	<u>446,622</u>
Nonmajor enterprise	165,652	General	165,652
Subtotal	<u>165,652</u>	Subtotal	<u>165,652</u>
PRIMARY GOVERNMENT AND COMPONENT UNIT:			
General – Primary Unit	117,442	Downtown Development Authority – Component Unit	117,442
TOTAL REPORTING ENTITY	<u>\$729,716</u>	TOTAL REPORTING ENTITY	<u>\$729,716</u>

All internal balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE H – INTERFUND TRANSFERS IN AND TRANSFERS OUT:

The interfund transfers for the year are as follows:

Fund	Transfers In	Fund	Transfers Out
PRIMARY GOVERNMENT:			
Major Street	\$803,553	General	\$3,329,217
Local Street	130,659		
Construction	291,885		
Nonmajor governmental	1,260,143		
Nonmajor Enterprise	842,977		
Subtotal	3,329,217	Subtotal	3,329,217
General	19,807	Nonmajor governmental	19,807
Construction	407,041	Major Street	407,041
Construction	29,946	Local Street	29,946
Internal service	381,113	Nonmajor governmental	381,113
TOTAL REPORTING ENTITY	\$4,167,124	TOTAL REPORTING ENTITY	\$4,167,124

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE I – ADVANCES TO/FROM COMPONENT UNITS:

Fund	Advances From	Fund	Advances To
General – Primary Government	\$29,158	Downtown Development Authority – Component Unit	\$29,158

NOTE J – CAPITAL ASSETS:

A summary of changes in governmental activities capital assets including internal service funds capital assets is as follows:

	Balance at June 30, 2005	Additions	Disposals	Balance at June 30, 2006
GOVERNMENTAL ACTIVITIES:				
Investment in joint venture	\$3,560,397	\$-	\$(35,737)	\$3,524,660
Construction in progress	3,611,602	659,465	-	4,271,067
Land	11,157,766	-	-	11,157,766
Total Capital Assets, not being depreciated	18,329,765	659,465	(35,737)	18,953,493
Land improvements	6,910,388	-	-	6,910,388
Buildings	4,971,467	-	-	4,971,467
Building improvements	11,851,920	19,000	-	11,870,920
Furniture and equipment	11,172,068	663,659	-	11,835,727
Infrastructure	30,391,829	1,135,133	-	31,526,962
Total Capital Assets, being depreciated	65,297,672	1,817,792	-	67,115,464

NOTE J – CAPITAL ASSETS (Continued):

	Balance at June 30, 2005	Additions	Disposals	Balance at June 30, 2006
Less Accumulated Depreciation:				
Land improvements	(3,973,980)	\$(260,855)	\$-	(4,234,835)
Buildings	(2,732,821)	(87,622)	-	(2,820,443)
Building improvements	(5,407,396)	(436,286)	-	(5,843,682)
Furniture and equipment	(6,992,516)	(757,615)	-	(7,750,131)
Infrastructure	(15,908,068)	(1,163,972)	-	(17,072,040)
Total Accumulated Depreciation	<u>(35,014,781)</u>	<u>(2,706,350)</u>	<u>-</u>	<u>(37,721,131)</u>
Governmental Activities Capital Assets, net	<u>\$48,612,656</u>	<u>\$(229,093)</u>	<u>\$(35,737)</u>	<u>\$48,347,826</u>

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

Governmental Activity:	
Depreciation – unallocated	\$1,912,853
Internal Service Funds charged to above activities	793,497
Total Depreciation Expense – Governmental Activities	<u>\$2,706,350</u>

A summary of changes in business-type activities capital assets is as follows:

	Balance at June 30, 2005	Additions	Disposals	Balance at June 30, 2006
BUSINESS-TYPE ACTIVITIES:				
Investment in joint venture	\$2,917,432	\$75,123	\$-	\$2,992,555
Land	102,500	-	-	102,500
Total Capital Assets, not being depreciated	<u>3,019,932</u>	<u>75,123</u>	<u>-</u>	<u>3,095,055</u>
Land improvements	3,128,861	-	-	3,128,861
Buildings and building improvements	14,771,692	667,699	(3,082)	15,436,309
Furniture and equipment	3,633,939	488,476	-	4,122,415
Infrastructure	32,970,755	2,935,655	(1,389)	35,905,021
Total Capital Assets, being depreciated	<u>54,505,247</u>	<u>4,091,830</u>	<u>(4,471)</u>	<u>58,592,606</u>
Less Accumulated Depreciation:				
Land improvements	(1,121,626)	(121,963)	-	(1,243,589)
Buildings and building improvements	(4,731,414)	(349,125)	-	(5,080,539)
Furniture and equipment	(797,794)	(269,597)	-	(1,067,391)
Infrastructure	(8,442,012)	(670,284)	-	(9,112,296)
Total Accumulated Depreciation	<u>(15,092,846)</u>	<u>(1,410,969)</u>	<u>-</u>	<u>(16,503,815)</u>
Business-Type Activities Capital Assets, net	<u>\$42,432,333</u>	<u>\$2,755,984</u>	<u>\$(4,471)</u>	<u>\$45,183,846</u>

NOTE J – CAPITAL ASSETS (Continued):

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

Business-Type Activities:	
Water Supply and Sewage Disposal	\$992,976
Stormwater Utility	241,606
Marina	136,911
Intermodal Transportation Terminal	39,476
Total Depreciation Expense – Business-Type Activities	<u>\$1,410,969</u>

A summary of component unit's capital assets is as follows:

	<u>Board of Light and Power</u>	<u>Peter White Public Library</u>	<u>Downtown Development Authority</u>	<u>Marquette Housing Commission</u>	<u>Total Component Units</u>
COMPONENT UNITS:					
Land	\$1,123,073	\$114,704	\$-	\$187,180	\$1,424,957
Total Capital Assets, not being depreciated	<u>1,123,073</u>	<u>114,704</u>	<u>-</u>	<u>187,180</u>	<u>1,424,957</u>
Land improvements	-	-	2,390,418	917,802	3,308,220
Buildings and improvements	11,045,842	8,848,096	-	8,846,346	28,740,284
Furniture and equipment	103,148,992	2,232,468	92,371	608,056	106,081,887
Total Capital Assets, being depreciated	<u>114,194,834</u>	<u>11,080,564</u>	<u>2,482,789</u>	<u>10,372,204</u>	<u>138,130,391</u>
Less Accumulated Depreciation:					
Land improvements	-	-	(198,873)	-	(198,873)
Buildings and improvements	-	(2,835,958)	-	-	(2,835,958)
Furniture and equipment	-	(1,837,664)	(67,066)	-	(1,904,730)
Unallocated	(76,297,451)	-	-	(7,283,539)	(83,580,990)
Total Accumulated Depreciation	<u>(76,297,451)</u>	<u>(4,673,622)</u>	<u>(265,939)</u>	<u>(7,283,539)</u>	<u>(88,520,551)</u>
Component Units Capital Assets, net	<u>\$39,020,456</u>	<u>\$6,521,646</u>	<u>\$2,216,850</u>	<u>\$3,275,845</u>	<u>\$51,034,797</u>

Depreciation expense for the component units was charged to the following functions:

Component Units:	
Board of Light and Power	\$3,094,271
Peter White Public Library	498,768
Downtown Development Authority	94,962
Marquette Housing Commission	427,730
Total Depreciation Expense – Component Units	<u>\$4,115,731</u>

NOTE K – UNEARNED REVENUES:

Unearned revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

1. The General Fund has reported unearned revenue of \$7,971,767. Of this amount, \$7,677,938 relates to the 2006 tax levy assessed May 1, 2006 and payable July 1, 2006, \$12,417 relates to delinquent taxes receivable not collected within sixty days after year-end, and \$270,812 relates to the special assessment receivable which are not available resources within the next year.
2. The Enterprise Funds have reported unearned revenue of \$27,083. This amount, \$27,083 represents the portion of special assessment receivables which are not available resources within the next year.
3. The Component Units have reported unearned revenue of \$1,452,618. This amount \$1,452,618 relates to their portion of the 2006 tax levy.

NOTE L – DEFINED BENEFIT PENSION PLAN – MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN:

Plan Description

The City contributes to the Municipal Employees Retirement System of Michigan (System), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. The System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917-9755.

The qualified employees of the Fire Department and Police Department of the City are included in a separate self-administered plan. The employees of the Marquette Board of Light and Power are included in a separate plan. All other full-time employees of the City and the Marquette Area Wastewater Treatment Facility are eligible to participate in the System. Benefits vest after six years for senior management and after ten years for all others. City employees who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, annual benefits are determined by negotiated contractual benefits within statute guidelines. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

Active employees with ten or more years of service, who become disabled receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service, if the actually acquired credited service is less than 10 years.

**NOTE L – DEFINED BENEFIT PENSION PLAN – MUNICIPAL EMPLOYEES
RETIREMENT SYSTEM OF MICHIGAN (Continued):**

If an employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85% of the deceased member's or deceased vested former member's accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

Funding Policy

City employees are required to contribute five percent of their annual compensation to the System. The City pays the contribution for senior management. The City is required to contribute the remaining amounts necessary to fund the System, using the actuarial basis specified by statute.

Annual Pension Cost

For the year ended June 30, 2006, the City's annual pension cost of \$625,812 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% a year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Three year trend information is stated below and ten year trend information may be found on page 88.

Fiscal Year Ending June 30	Valuation Date December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	2001	\$521,245	100%	0
2005	2002	545,201	100%	0
2006	2003	625,812	100%	0

**NOTE M – DEFINED BENEFIT PENSION PLAN - FIRE-POLICE RETIREMENT
SYSTEM:**

Separately Issued Plan Financial Report

The separately issued audited financial statements of the Plan can be obtained at the City's Finance Department located at 300 West Baraga Avenue, Marquette, Michigan 49855.

NOTE M – DEFINED BENEFIT PENSION PLAN – FIRE-POLICE RETIREMENT SYSTEM (Continued):

Summary of Significant Accounting Policies

Basis of Accounting - The City of Marquette Fire - Police Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Plan Description

The City of Marquette is the administrator of a single-employer public employee retirement system (“System”) established and administered by the City of Marquette to provide pension benefits for the Fire and Police Department employees. The Fire and Police System is considered part of the City of Marquette’s financial reporting entity and is included in the City’s financial report as a pension trust fund. The City’s payroll for employees covered by the System for the year ended June 30, 2006 was \$2,855,572; the City’s total payroll was \$9,225,526.

Current membership in the Plan comprises the following as of December 31, 2005, the latest actuarial valuation date:

	Group	
Retirees and beneficiaries currently receiving benefits		53
Vested terminated members		2
Active employees:		
Fire		25
Police		34
	TOTAL	<u>114</u>

The qualifying full-time employees of the Fire Department and Police Department are eligible to participate in the System. Benefits vest after ten years of service. Employees who retire at or after the age of 50 with 25 or more years of credited service or age 60 with 10 or more years of service, are entitled to annual retirement benefits, payable monthly for life, in an amount equal to a minimum of \$600 a month, or 2.5 percent (3.0 percent for Fire members) of a three year average final compensation times the first twenty-five years of service plus 1.5 percent (1.0 percent for Fire members) of average final compensation times years of service in excess of twenty-five years. The System also provides death and disability benefits.

NOTE M – DEFINED BENEFIT PENSION PLAN – FIRE-POLICE RETIREMENT SYSTEM (Continued):

Non-duty disability benefits are payable upon the total and permanent disability of a member with 5 or more years of service. Benefits up to age 55 are paid equaling 1.5% of the average final compensation times the years of service. Benefits after the age of 55 are the same as benefits received from service retirement.

Disability benefits from the total or permanent disability of a member in the line of duty are payable, up to the age of 55, (age 50 for Fire members) at 50% of the average final compensation. Benefits after the age of 55 are the same as benefits from service retirement with service credit from date of disability to age 55, except for fire members whose full retirement is the equivalent of 25 years of service that the member would have had if not disabled.

If an active employee dies in the line of duty, the beneficiary will receive the same amount that was paid by worker's compensation.

If an active employee with 20 or more years of service (10 years required for fire members) dies not in the line of duty, the surviving spouse, if any, will receive an amount equal to the accrued straight life pension actuarially reduced in accordance with option I election.

Contributions

Covered employees are required by statute to contribute 5 percent of their salary to the System. If an employee leaves covered employment or dies before being eligible for retirement, the total accumulated employee contributions plus related investment earnings may be refunded to the employee or designated beneficiary. Benefit and contribution provisions are established by State statute and City ordinance.

The City's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the year ended June 30, 2006 were determined using an entry age actuarial funding method. Unfunded actuarial accrued liabilities were amortized as a level percent of payroll over an open period of 21 years for police and 20 years for fire.

During the year ended June 30, 2006 and 2005, contributions totaling \$265,196 and \$136,351, respectively, were made in accordance with contribution requirements determined by an actuarial valuation of the System.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Three year trend information is stated below and ten year trend information may be found on page 89.

NOTE M – DEFINED BENEFIT PENSION PLAN – FIRE-POLICE RETIREMENT SYSTEM (Continued):

<u>Fiscal Year Ending June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2003	0	0	0
2004	0	0	0
2005	\$207,854	100%	0

Concentrations of Investments

The Plan does not hold any individual investments that represent 5.0% or more of the Plan's net assets.

NOTE N – DEFINED BENEFIT PENSION PLAN BOARD OF LIGHT AND POWER – COMPONENT UNIT:

Separately Issued Plan Financial Report

The separately issued audited financial statements of the Plan can be obtained at the City's Finance Department located at 300 West Baraga Avenue, Marquette, Michigan 49855.

During the fiscal year ended June 30, 2005, the Board of Light and Power was effectively split from other City departments for pension benefit purposes. The following disclosures are related to the specifics of the "new" plan for the Board of Light and Power employees as excerpted from the audit report of the Board of Light and Power.

Plan Description

The Board of Light and Power (Board) contributed to the Municipal Employees Retirement System of Michigan (System), an agent multiple-employer public employee retirement system that acts as common investment and administrative agent for all Michigan municipal employees. The System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917-9755.

All employee benefits, except for the executive director, vest after ten years of service. The executive director's benefits vest at eight years of service. Current Board bargaining and nonbargaining active employees who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.25 percent of a members 5 year final average compensation times the number of years service credited until age 65. At age 65, or upon receipt of social security benefits, the benefit payable for life is equal to the sum of 1.7 percent times the 5 year final average compensation times the number of years of service credit. Board employees who have retired prior to July 1, 1992, at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable monthly for life, in an amount

**NOTE N – DEFINED BENEFIT PENSION PLAN BOARD OF LIGHT AND POWER -
COMPONENT UNIT (Continued):**

equal to the sum of 1.2 percent times the first \$4,200 of a members 5 year final average compensation, plus 1.7 percent times the portion of final average compensation over \$4,200. The executive director and the management group who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.5 and 2.25, respectfully, percent of a member's 5 year final average compensation times the number of years of service credit. The System provides for early retirement benefits for all active employees at age 55 with 15 years of service at a reduced retirement benefit and with 25 years of service at age 55 without reduced benefits and age 50 with 25 years of service at a reduced benefit.

The System also provides death and disability benefits. The benefit provisions and all other requirements are established by State statute and Board ordinance.

Active employees with ten or more years of service, who become disabled receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service, if the actually acquired credited service is less than 10 years.

If an active employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect Option II (100% joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85% of the deceased members or deceased vested former members accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

Funding Policy

Board employees are required to contribute percentages ranging from 4.7% - 4.8% of their annual salary to the System, except for the executive director's contribution which is paid by the Board. The Board is required to contribute the remaining amounts necessary to fund the System, using the actuarial basis specified by statute.

Annual Pension Cost

For the year ended June 30, 2006, the Board's annual pension cost was \$441,780. The Board's actual contributions for 2006 were \$406,624. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry age normal cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8 percent a year compounded annually, (b) projected salary increases of 4.5 percent a year compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 0.5% to 4.90% per year, depending on age, attributable to seniority/merit. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.

NOTE N – DEFINED BENEFIT PENSION PLAN BOARD OF LIGHT AND POWER - COMPONENT UNIT (Continued):

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Three year trend information is stated below and ten year trend information may be found on page 90.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Valuation Date</u> <u>December 31</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2004	2001	\$271,728	99%	0
2005	2002	352,968	99%	0
2006	2003	441,780	92%	0

NOTE O – DEFINED CONTRIBUTION PENSION PLAN:

The City of Marquette provides pension benefits to Senior Management Division 15 and Middle Management Division 10 employees through a defined contribution pension plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City established the MERS Benefit Program DC in the form of the ICMA Retirement Corporation Governmental Money Purchase Plan and Trust, as amended by and as authorized by Section 19A of the Municipal Employees' Retirement System of Michigan Plan Document. The ICMA Retirement Corporation is the Plan Administrator and the City has agreed to the commingled investment of assets of the Plan within the ICMA Retirement Trust.

At June 30, 2006, there were 7 plan members. Plan members are required to contribute 3% of covered earnings and the City is required to contribute 13% or 9% of covered earnings for the Senior Management Division and Middle Management Division, respectively. In accordance with these requirements, the City contributed \$64,032 during the current year and employees contributed \$17,206. The employees under the Plan are immediately vested.

NOTE P – DEFERRED COMPENSATION PLAN:

The City of Marquette offers its employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The plans are available to all Board of Light and Power employees and to all other City employees, and permit them to defer a portion of their current earnings until the employee's termination, retirement, death or unforeseeable emergency.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be property of the Plan's participants and are no longer subject to the City's general creditors. Therefore in accordance with the provisions of GASB Statement No. 32, Plan balances and activities are not reflected in these financial statements.

The Plan's participants have the right to designate how the funds will be invested. Accordingly, the City has no liability for losses under the Plan. The Plan's assets are held in trust for the exclusive benefit of the Plan's participants and their beneficiaries.

NOTE P – DEFERRED COMPENSATION PLAN (Continued):

The City's plans are administered by the Nationwide Retirement Solutions (formerly known as PEBSCO), the International City Manager's Association (ICMA), American Express Financial Advisors, Inc., and the Variable Annuity Life Insurance Company (VALIC). Nationwide and ICMA, as plan administrators, agree to hold harmless and indemnify the City, its appointed and elected officers and participating employees from any loss resulting from Nationwide or ICMA or their respective agents' failure to perform their duties and services pursuant to the ICMA and Nationwide programs.

The Component Unit's (Board of Light and Power's) plans are administered by the ICMA and Nationwide. ICMA and Nationwide, as plan administrators, agree to hold harmless and indemnify the Board, its appointed and elected officers and participating employees from any loss resulting from ICMA or Nationwide or their agents' failure to perform their duties and services pursuant to the ICMA and Nationwide programs.

NOTE Q – LONG TERM RECEIVABLES:

Internal Service Fund:

In November of 1999, the City entered into an agreement with the Downtown Development Authority (DDA), whereby the City would finance the purchase of a municipal sidewalk tractor. The financing agreement calls for payments over a seven-year period, with quarterly installments of \$3,076, including interest at 5% per annum. The balance of this long-term receivable recorded in the Motor Vehicle Equipment Fund was \$6,038 at June 30, 2006.

Remaining principal payments to be received as of June 30, 2006 are as follows:

<u>Year Ending June 30</u>	<u>Motor Vehicle Equipment Fund</u>
2007	\$6,038

NOTE R – ACCUMULATED COMPENSATED ABSENCES:

Sick Leave – Employees earn sick leave at the rate of one (1) day per month, not to exceed 12 days per year. Upon retirement or termination, employees in good standing after at least ten (10) years of service, shall be paid one-half such sick leave accumulated at that time up to a maximum accrual of 1,800 hours at their current rate of pay. Certain bargaining unit employees who were hired before January 1, 1975, shall be paid one-half of all sick leave hours accumulated at the time of retirement or termination. Management employees whose accrued sick leave balances were greater than 1,800 hours for the pay period of June 9, 1997 through June 22, 1997, have their sick leave balance capped at the higher hours for payout purposes at the time of retirement or termination. Management employees hired after June 30, 1998 have their accrued sick leave balance capped at 1,000 hours for payout purposes at the time of retirement or termination.

NOTE R – ACCUMULATED COMPENSATED ABSENCES (Continued):

Vacation Leave – Employees earn vacation leave at various schedules dependent upon their length of employment. Upon retirement or termination, employees are paid for such vacation accumulated at that time up to a maximum accrual of 400 hours. Certain supervisory employees are paid for such vacation accumulated at that time up to a maximum accrual of 408 hours. Management employees whose accrued vacation balances were greater than 400 hours for the pay period of June 9, 1997 through June 22, 1997 have their vacation balance capped at the higher hours for payout purposes at the time of retirement or termination. Management employees hired after June 30, 1998 have a maximum accrual of 200 vacation hours for payout purposes at the time of retirement or termination. Fire and Police employees are paid for all accrued vacation hours accumulated at the time of retirement or termination up to certain capped levels.

Benefit Day Leave – Effective December 11, 2000, all new hired Department Heads and Middle Managers earn benefit leave dependent upon their length of employment. Current Department Heads and Middle Managers at that time had the option of remaining under the regular Vacation and Sick Leave or electing the Benefit Leave. If the Benefit Leave was elected, their accumulated vacation and sick leave was converted to benefit leave. Vacation leave was converted on a one for one basis while sick leave was converted on a two for one basis. By December 31 of every year, these employees have the option of being paid for accumulated benefit leave not to exceed 5% of their annual base pay, provided they maintain a minimum of 232.5 benefit hours. These employees have their benefit leave capped at 1,100 hours for payout purposes at the time of retirement or termination.

The liabilities for accumulated, unpaid vacation, sick and benefit leave at June 30, 2006 are as follows:

	Benefit Leave And Vacation	Sick	Total
PRIMARY GOVERNMENT:			
Current portion	\$899,295	\$36,034	\$935,329
Long-term portion	472,230	504,859	977,089
TOTAL	<u>\$1,371,525</u>	<u>\$540,893</u>	<u>\$1,912,418</u>
COMPONENT UNITS:			
Current portion	\$425,008	\$389,382	\$814,390
Long-term portion	42,305	35,005	77,310
TOTAL	<u>\$467,313</u>	<u>\$424,387</u>	<u>\$891,700</u>

NOTE S – BUDGETARY NONCOMPLIANCE:

Excesses of expenditures over appropriations in the individual government funds are as follows:

MSHDA Homeowner Repair Fund:	
Community Development	\$4,036
Lakeview Arena:	
Recreation and culture	11,513

NOTE S – BUDGETARY NONCOMPLIANCE (Continued):

Budget amendments are required by State law when it appears that the actual and probable revenues from taxes and other sources in a fund are less than the estimated revenues, including an available fund balance upon which appropriations from the fund were based, which would prevent expenditures from exceeding available revenues for that current fiscal year.

NOTE T – CONTINGENCIES:

There exists certain lawsuits pending in which the City is involved. The City attorney estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

NOTE U – JOINT VENTURE - MARQUETTE COUNTY SOLID WASTE MANAGEMENT AUTHORITY:

In June of 1988, the City of Marquette joined with 19 other municipalities to create the Marquette County Solid Waste Management Authority (Authority). The Authority was created pursuant to Act 233 of 1955 to plan for, acquire, construct, finance, operate, maintain, repair and dispose of, whether by sale, lease or otherwise, an Act 641 landfill, including all improvements, appurtenances, easements, accessory facilities and structures, equipment, and other property part of or incidental to the landfill sufficient to satisfy the requirements of, and function as, a solid waste disposal area under Act 641 and to establish and administer procedures providing for the separation, recycling, recovery, conversion of solid waste to energy and for the disposition of such energy output and disposal at the site of Non-toxic Type II and Type III Solid Waste, to fund all of the above activities, and to charge and collect fees in connection with the operation of the landfill and to provide for the reimbursement with receipt of bond proceeds to the City of Marquette and Sands Township of their respective costs and expenses incurred in connection with the establishment and administration of the Solid Waste Authority and the System Facility.

As required by Governmental Accounting Standards Board Statement #14, the City's investment in this joint venture is recorded as an asset in the general fixed asset account group. The audited financial statements for the Marquette County Solid Waste Management Authority can be obtained at P.O. Box 936, Marquette, MI 49855.

The Authority is governed by a Board of Trustees consisting of one (1) member (who shall be the chairperson of the Board of Trustees) designated by the Sands Township Supervisor on behalf of the Sands Township, two (2) members designated by the Marquette City Commission; three (3) members designated by the Marquette County Board of Commissioners, and one resident of the City of Marquette appointed by the other six Authority Board members. All decisions of the Board are made by majority vote, consisting of at least four of its members.

NOTE U – JOINT VENTURE - MARQUETTE COUNTY SOLID WASTE MANAGEMENT AUTHORITY (Continued):

The City's share of assets, liabilities and fund equity is approximately 31 percent. Summary financial information as of and for the fiscal year ended June 30, 2006, the latest available report, is as follows:

Total Assets	\$13,505,304
Total Liabilities	2,135,432
Total Net Assets	11,369,872
Total Operating Revenues	2,368,781
Total Operating Expenses	2,625,815
Total Joint Venture's Outstanding Debt	740,000

The City has pledged its full faith and credit for the Marquette County Solid Waste Management Authority Bonds, 1993B Issue, Refunding Bonds. These bonds are payable from the net revenues of the Authority, as well as by each member of the Authority to the extent of their pro rata share of the principal and interest requirements on the bonds. The obligation to pay a proportionate share of the principal and interest is a general obligation of each constituent municipality. Each member is authorized and obligated to levy a tax without limitation as to rate or amount for the prompt payment of its respective shares of the obligation. The City has elected to pay its share of the debt through tax levies. The proportionate share of the debt service for the City will be included in the General Fund debt service expenditures in future years. The City's proportionate share, as based on a 1990 census, is approximately 31% as of June 30, 2006.

NOTE V – RISK MANAGEMENT:

The City of Marquette is exposed to various risks of loss related to property, loss, torts, errors and omissions, and employee injuries (workmen's compensation). As of July 1, 1997 the City participates in the Michigan Municipal League Property and Liability Pool for claims relating to other liability and property claims and participates in the Michigan Municipal Workers Compensation Pool for employee injury claims.

The Michigan Municipal League risk pool programs operate as common risk-sharing\management programs for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The City's maximum deductible for property and liability coverage is \$75,000 per occurrence, subject to \$250,000 aggregate per policy year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City purchases commercial health care insurance from Blue Cross/Blue Shield of Michigan for all employees, including retired employees.

NOTE W – OTHER POST EMPLOYMENT BENEFITS:

The City of Marquette offers group benefit health insurance coverage under various collective bargaining agreements covering substantially all employees and former employees of the City. The amount paid for former City employees for the fiscal year ended June 30, 2006 was \$271,011. There were 126 participants eligible to receive benefits and 58 are participating. This benefit is accounted for on the “pay-as-you-go” method, whereby the City is reporting the amounts paid as expenditures in the year the amount is paid for the benefit provided. The amount paid for the component unit (Board of Light and Power) employees for the year ended June 30, 2006 was \$942,723. There were 87 participant’s eligible and receiving benefits.

NOTE X – SINGLE AUDIT:

The City’s audited financial statements report a total amount of federal expenditures that is more than the Single Audit threshold of \$500,000. The City is therefore required to have an audit in accordance with OMB Circular A-133 for the fiscal year ended June 30, 2006.

NOTE Y – RESTATEMENT OF NET ASSETS:

The amount reported as the net assets invested in capital assets net of related debt for the year ended June 30, 2005 has been restated.

The restatement was to increase the amount previously reported by \$11,611,473 which represents the undepreciated value of the City’s infrastructure to be implemented as of the reporting date under the Governmental Accounting Standards Board Statement No. 34. A summary of the capital assets as of June 30, 2005 is as follows:

Infrastructure cost		\$27,412,782
Accumulated depreciation		<u>15,801,309</u>
	Net	<u>\$11,611,473</u>

NOTE Z – RECLASSIFICATIONS:

Certain reclassifications have been made in the June 30, 2005 financial statements to conform to the classifications used as of June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

City of Marquette, Michigan

**MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN
DEFINED BENEFIT PENSION PLAN
ANALYSIS OF FUNDING INFORMATION**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date <u>December 31</u>	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
1996	\$12,436,500	\$13,648,879	\$1,212,379	91%	\$4,717,183	26%
1997	13,630,932	15,461,563	1,830,631	88	4,800,223	38
1998	15,257,550	16,216,678	959,128	94	5,031,270	19
1999	16,969,765	17,430,314	460,549	97	4,909,541	9
2000	18,722,203	20,136,439	1,414,236	93	4,803,572	29
2001	20,056,537	23,113,321	3,056,784	87	5,039,800	61
2002	20,799,934	24,588,188	3,788,254	85	5,227,706	72
2003	22,629,322	25,997,838	3,368,516	87	5,393,986	62
2004	24,187,555	28,468,133	4,280,578	85	5,426,755	79
2005	25,645,477	33,158,414	7,512,937	77	5,435,528	159

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending <u>June 30</u>	Valuation Date <u>December 31</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1997	1994	\$103,124	100.0%	\$0
1998	1995	153,696	100.0%	0
1999	1996	295,912	100.0%	0
2000	1997	424,066	100.0%	0
2001	1998	381,485	100.0%	0
2002	1999	399,053	100.0%	0
2003	2000	456,453	100.0%	0
2004	2001	521,245	100.0%	0
2005	2002	545,201	100.0%	0
2006	2003	625,812	100.0%	0

NOTES TO THE REQUIRED SCHEDULES

The required contribution was determined using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% per year, compounded annually, (b) projected salary increases of 4.5% per year, compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 0.00% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.

City of Marquette, Michigan

FIRE - POLICE RETIREMENT SYSTEM ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date <u>December 31</u>	(a) Actuarial Value of <u>Assets</u>	(b) Entry Age Actuarial Accrued <u>Liability</u>	(b-a) Unfunded (Over funded) Accrued Liability (<u>UAL</u>)	(a/b) Funded <u>Ratio</u>	(c) Annual Covered <u>Payroll</u>	[(b-a)/c] UAL as a Percentage of <u>Covered Payroll</u>
1996	\$18,118,588	\$15,362,498	\$(2,756,090)	118%	\$2,084,753	132%
1997	19,918,405	16,102,478	(3,815,927)	124	2,234,522	170%
1998	22,301,497	17,189,981	(5,111,516)	130	2,248,447	227%
1999	24,690,249	18,070,456	(6,619,793)	137	2,381,956	277%
2000	26,681,186	18,922,286	(7,758,900)	141	2,477,522	313%
2001	27,995,675	20,310,485	(7,685,190)	138	2,595,193	296%
2002	27,832,278	22,046,809	(5,785,469)	126	2,669,333	216%
2003	27,564,327	23,337,401	(4,226,926)	118	2,717,024	156%
2004	27,258,447	24,686,419	(2,572,028)	110	2,888,945	89%
2005	26,904,310	26,794,398	(109,912)	100	2,782,910	4%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending <u>June 30</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
1996	\$207,560@	100.0%	\$0
1997	206,674@	100.0%	0
1998	220,008@	100.0%	0
1999	202,247@	100.0%	0
2000	-	-	0
2001	-	-	0
2002	-	-	0
2003	-	-	0
2004	-	-	0
2005	207,854@	100.0%	0

@ In each the employer contributes exactly the actual dollar amount recommended by the actuary plus 5.0% of the actual pay during the fiscal year of both the fire chief and police chief.

NOTES TO THE REQUIRED SCHEDULES

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.0% per year, compounded annually, (b) projected salary increases of 4.5% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.00% to 3.50% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis. The amortization period on December 31, 2004 was 21 years for police and 20 years for fire.

City of Marquette, Michigan

**MARQUETTE BOARD OF LIGHT AND POWER
MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN
DEFINED BENEFIT PENSION PLAN
ANALYSIS OF FUNDING INFORMATION**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date <u>December 31</u>	(a) Actuarial Value of <u>Assets</u>	(b) Entry Age Actuarial Accrued <u>Liability</u>	(b-a) Unfunded Accrued Liability <u>(UAL)</u>	(a/b) Funded <u>Ratio</u>	(c) Annual Covered <u>Payroll</u>	[(b-a)/c] UAL as a Percentage of <u>Covered Payroll</u>
1996	\$13,416,016	\$12,897,873	\$(518,142)	104%	\$3,405,977	0%
1997	14,996,905	14,042,518	(954,386)	107	3,295,592	0
1998	16,434,707	14,847,465	(1,587,241)	111	3,545,675	0
1999	18,484,644	17,553,732	(930,912)	105	3,431,413	0
2000	20,201,860	21,432,284	1,230,424	94	3,585,217	34
2001	21,249,595	22,508,331	1,258,736	94	3,720,528	34
2002	21,204,453	23,824,315	2,619,862	89	3,577,979	73
2003	21,931,156	26,001,957	4,070,801	84	3,911,098	104
2004	22,438,510	27,151,787	4,713,277	83	3,599,278	131
2005	22,841,639	28,767,850	5,926,211	79	3,522,833	168

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending June 30	Valuation Date December 31	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
1997	1994	\$187,370	234.8%	\$(252,630)
1998	1995	277,303	63.1%	102,306
1999	1996	249,208	61.0%	98,199
2000	1997	213,168	225.0%	0
2001	1998	229,444	164.0%	0
2002	1999	277,151	100%	0
2003	2000	276,564	100%	0
2004	2001	271,728	99%	0
2005	2002	352,968	99%	0
2006	2003	441,780	92%	0

NOTES TO THE REQUIRED SCHEDULES

Commencing with the 1993 actuarial valuation, the required contribution was determined using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% per year, compounded annually, (b) projected salary increases of 4.5% per year, compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 0.00% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of shortterm volatility in the market value of investments over a five year period. The unfunded actuarialaccrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.

City of Marquette, Michigan

MAJOR GOVERNMENTAL FUNDS

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

GENERAL FUND

The function of the General Fund is to record all revenues and expenditures of the City which are not accounted for in other funds. The General Fund receives revenue from many sources which are used to finance a wide range of City activities.

The major activities financed by the General Fund are Fire and Police Protection, Public Works, Parks and Recreation, City Administration and most public services.

The modified accrual basis of accounting is used in recording General Fund transactions.

SPECIAL REVENUE FUNDS

The function of the Special Revenue Funds is to record revenue and expenditures for specific functions or activities within restrictions imposed by City Charter, ordinances, resolutions and/or Federal and State statutes.

MAJOR STREET AND TRUNKLINE FUND AND LOCAL STREET FUND: Michigan's Act 51 of 1993, as amended, allocates gasoline and weight taxes to build and maintain roads, roadsides and storm sewers and to remove snow from and to control traffic along roads. These tax monies may be transferred between funds only as permitted by law. Other revenues include general taxes transferred from the General Fund. Within the City, Federal and State trunklines and certain "mile" roads are maintained by the City under contractual agreement with the State of Michigan and are subject to reimbursement to the City. The remaining mile roads and certain other roads are designated as MAJOR STREETS, maintained on a priority basis by the City, and the remaining roads are designated as LOCAL STREETS.

CAPITAL PROJECTS FUNDS

The function of Capital Projects Funds is to account for the acquisition and construction of major capital facilities other than those financed by Proprietary Funds. The modified accrual basis of accounting is used in recording Capital Projects Fund transactions.

CONSTRUCTION FUND: This fund records the development, improvement, and rehabilitation of City infrastructure. Operating transfers have financed the current projects.

City of Marquette, Michigan

GENERAL FUND

COMPARATIVE BALANCE SHEET

June 30, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 892,116	\$ 899,158
Investments	2,797,241	2,707,500
Receivables:		
Taxes:		
Current	7,677,938	7,303,479
Delinquent	53,180	35,566
Accounts	123,925	127,976
Special assessment	270,812	337,908
Allowance for uncollectible accounts	(24,924)	(24,924)
Due from other funds	446,622	721,924
Due from component units	117,442	117,442
Advances to component units	29,158	29,158
Due from other governments:		
County	-	13,078
State	276,283	280,627
Due from other authorities	653,754	523,065
Inventories	108,821	154,891
Prepaid expenditures	109,948	63,984
TOTAL ASSETS	<u><u>\$ 13,532,316</u></u>	<u><u>\$ 13,290,832</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 316,730	\$ 370,798
Retainages payable	4,342	4,288
Accrued compensated absences	702,933	718,982
Due to other funds	165,652	411,281
Due to component units	-	-
Due to local units	5,228	5,710
Deferred revenue on property taxes receivable:		
Current	7,690,355	7,289,093
Delinquent	10,600	12,417
Deferred revenue on special assessments	270,812	337,908
TOTAL LIABILITIES	<u>9,166,652</u>	<u>9,150,477</u>
Fund Balance:		
Reserved for:		
Prepaid expenditures	109,948	63,984
Advances to other funds	29,158	29,158
Inventories	108,821	154,891
Encumbrances	259,219	184,015
Workers' compensation	-	207,068
Unreserved	3,858,518	3,501,239
TOTAL FUND BALANCE	<u>4,365,664</u>	<u>4,140,355</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 13,532,316</u></u>	<u><u>\$ 13,290,832</u></u>

City of Marquette, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006		2005	
	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Actual GAAP Basis
REVENUES:				
Property Taxes:				
Real property tax	\$ 6,357,800	\$ 6,376,941	\$ 19,141	\$ 5,601,446
Personal property tax	505,000	522,019	17,019	468,901
Interest and penalty on taxes	31,000	42,088	11,088	34,190
Administrative collection fees	215,000	214,764	(236)	201,434
Total Property Taxes	7,108,800	7,155,812	47,012	6,305,971
 Industrial Facilities Tax Act	 5,375	 5,768	 393	 5,789
 Payments in Lieu of Taxes:				
MSHDA	(5,000)	(4,351)	649	44,100
Light and Power Fund	1,200,000	1,457,748	257,748	1,200,000
Public Housing Authority	11,000	11,452	452	12,880
Sault Tribe Housing Authority	3,000	3,000	-	1,500
Marquette Area Wastewater Treatment Facility	77,300	82,755	5,455	89,946
Orianna Ridge	16,000	16,211	211	5,406
Whetstone	18,000	18,942	942	19,041
Water and Sewage Disposal Fund	764,000	767,516	3,516	680,885
Total Payment in Lieu of Taxes	2,084,300	2,353,273	268,973	2,053,758
 Federal and State Grants:				
UPSET	31,000	34,767	3,767	30,122
Drive Michigan Safely	-	-	-	5,637
Challenge Award	-	-	-	5,515
Police Computer Forensics Lab	-	330	330	9,668
State Home Care Service	29,868	26,425	(3,443)	29,160
Community Mental Health Allocation	11,651	12,061	410	6,233
FEMA-Fire Safety	-	17,557	17,557	53,234
Fire Minigrants	900	950	50	-
Lighthouse Restoration	37,400	37,403	3	1,575
MEDC	100,000	100,000	-	-
Other	-	195	195	-
Department of Natural Resources	4,000	-	(4,000)	-
Traffic Safety	13,700	13,706	6	-
Department of Natural Resources - Snowmobile grant	15,000	12,893	(2,107)	14,941
Police state grant	5,000	-	(5,000)	-
Council for Arts & Cultural	22,000	23,400	1,400	15,100
Total Federal and State Grants	270,519	279,687	9,168	171,185
 State-Shared Revenues:				
Fire protection - State facility	156,000	156,219	219	74,383
Sales and use tax	2,160,000	2,078,066	(81,934)	2,110,865
Liquor licenses	20,500	20,644	144	19,319
Total State-Shared Revenues	2,336,500	2,254,929	(81,571)	2,204,567

City of Marquette, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006			2005
	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Actual GAAP Basis
Intergovernmental Revenues:				
NMPSA	\$ 9,800	\$ 11,280	\$ 1,480	\$ 8,585
MCCOA allocation - senior services	107,446	91,275	(16,171)	87,676
MCCOA allocation - match	26,922	30,934	4,012	22,138
Tribal Revenue Sharing	10,000	10,000	-	10,000
Total Intergovernmental Revenues	154,168	143,489	(10,679)	128,399
Licenses and Permits:				
Business licenses and permits	5,000	3,002	(1,998)	4,152
Nonbusiness licenses and permits	24,430	25,248	818	32,091
Total Licenses and Permits	29,430	28,250	(1,180)	36,243
Charges for Services:				
Fees	307,330	332,706	25,376	346,521
Garbage transfer and disposal fees	1,254,000	1,193,368	(60,632)	1,579,083
Cemetery foundations and grave openings	36,500	38,764	2,264	32,567
Services to other funds	2,034,516	1,836,347	(198,169)	2,096,770
Total Charges for Services	3,632,346	3,401,185	(231,161)	4,054,941
Sales:				
Cemetery lot use	21,400	21,210	(190)	21,200
Travel trailer facility concessions and other	7,500	6,907	(593)	4,875
Total Sales	28,900	28,117	(783)	26,075
Use and Admission Fees:				
Community Center use	17,900	18,805	905	21,173
Travel trailer facility use	115,000	120,631	5,631	109,515
Ballfields	11,500	5,921	(5,579)	8,786
Skiing use/passes	-	82	82	288
Parking fees	17,000	14,455	(2,545)	10,975
Art center and theater	67,600	53,931	(13,669)	49,595
Total Use and Admission Fees	229,000	213,825	(15,175)	200,332
Fines and forfeits	91,300	95,917	4,617	137,572

City of Marquette, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006			2005
	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Actual GAAP Basis
Rentals:				
Land and building rental	\$ 28,900	\$ 28,990	\$ 90	\$ 22,350
Parking rentals - lots	10,000	4,470	(5,530)	4,375
Equipment rent	20,000	9,578	(10,422)	12,606
Total Rentals	58,900	43,038	(15,862)	39,331
Special Assessments:				
Interest	23,415	22,353	(1,062)	7,812
Assessments levied	88,111	67,460	(20,651)	55,694
Total Special Assessments	111,526	89,813	(21,713)	63,506
Sale of capital assets	925,564	908	(924,656)	11,721
Contributions from private sources	109,000	107,630	(1,370)	21,915
Investment income	206,500	171,797	(34,703)	21,522
Reimbursements	51,700	53,771	2,071	40,090
Other Revenue	42,575	39,536	(3,039)	34,374
TOTAL REVENUES	17,476,403	16,466,745	(1,009,658)	15,557,291
EXPENDITURES:				
GENERAL GOVERNMENT:				
Central Administration:				
Personnel services	1,195,705	1,105,853	89,852	1,237,706
Supplies	37,731	32,131	5,600	36,394
Other services and charges	640,938	484,297	156,641	203,828
Total Central Administration	1,874,374	1,622,281	252,093	1,477,928
Assessor:				
Personnel services	154,858	166,487	(11,629)	137,601
Supplies	6,016	6,017	(1)	7,729
Other services and charges	34,500	16,669	17,831	95,871
Total Assessor	195,374	189,173	6,201	241,201
Clerk:				
Personnel services	318,868	252,624	66,244	303,557
Supplies	8,866	12,503	(3,637)	11,960
Other services and charges	82,850	72,273	10,577	88,791
Total Clerk	410,584	337,400	73,184	404,308

City of Marquette, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006			2005
	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Actual GAAP Basis
Information Systems:				
Personnel services	\$ 210,602	\$ 191,578	\$ 19,024	\$ 199,414
Supplies	23,800	23,878	(78)	10,851
Other services and charges	156,530	116,495	40,035	105,101
Capital outlay	40,103	43,668	(3,565)	176,998
Total Information Systems	431,035	375,619	55,416	492,364
City Hall and Grounds:				
Personnel services	56,373	54,546	1,827	49,818
Supplies	11,000	9,230	1,770	6,777
Other services and charges	94,308	86,459	7,849	78,586
Capital outlay	-	-	-	59,748
Total City Hall and Grounds	161,681	150,235	11,446	194,929
Cemetery:				
Personnel services	106,928	105,119	1,809	97,640
Supplies	5,750	4,517	1,233	8,749
Other services and charges	48,084	45,001	3,083	45,588
Total Cemetery	160,762	154,637	6,125	151,977
Other General Government:				
Insurance and Bonds:				
Other services and charges	137,000	136,236	764	111,023
Other	-	64,774	(64,774)	69,500
Total Other General Government	137,000	201,010	(64,010)	180,523
TOTAL GENERAL GOVERNMENT	3,370,810	3,030,355	340,455	3,143,230
PUBLIC HEALTH AND SAFETY:				
Police Department:				
Personnel services	2,765,171	2,686,482	78,689	2,549,984
Supplies	47,664	63,194	(15,530)	37,339
Other services and charges	203,950	186,977	16,973	195,005
Capital outlay	-	6,810	(6,810)	20,509
Total Police Department	3,016,785	2,943,463	73,322	2,802,837
Fire Department:				
Personnel services	1,834,481	1,752,514	81,967	1,660,002
Supplies	30,116	48,062	(17,946)	40,594
Other services and charges	169,291	150,981	18,310	163,560
Capital outlay	-	-	-	59,148
Total Fire Department	2,033,888	1,951,557	82,331	1,923,304
TOTAL PUBLIC HEALTH AND SAFETY	5,050,673	4,895,020	155,653	4,726,141

City of Marquette, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006			2005
	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Actual GAAP Basis
PUBLIC WORKS:				
Public Works Maintenance:				
Personnel services	\$ 1,647,079	\$ 1,556,074	\$ 91,005	\$ 1,428,672
Supplies	85,404	97,313	(11,909)	60,647
Other services and charges	605,317	537,089	68,228	539,594
Capital outlay	32,745	20,400	12,345	5,246,524
Total Public Works Maintenance	<u>2,370,545</u>	<u>2,210,876</u>	<u>159,669</u>	<u>7,275,437</u>
 City Engineer:				
Personnel services	721,788	640,081	81,707	623,854
Supplies	11,000	10,691	309	8,486
Other services and charges	61,400	79,186	(17,786)	75,442
Other services and charges	7,000	5,497	1,503	-
Total City Engineer	<u>801,188</u>	<u>735,455</u>	<u>65,733</u>	<u>707,782</u>
 TOTAL PUBLIC WORKS	<u>3,171,733</u>	<u>2,946,331</u>	<u>225,402</u>	<u>7,983,219</u>
 SANITATION:				
Sanitation Services:				
Personnel services	114,100	107,629	6,471	92,971
Supplies	600	420	180	600
Other services and charges	1,129,568	1,083,910	45,658	1,423,375
TOTAL SANITATION SERVICES	<u>1,244,268</u>	<u>1,191,959</u>	<u>52,309</u>	<u>1,516,946</u>
 SOCIAL SERVICES:				
Community Mental Health Allocation:				
Personnel services	4,771	4,977	(206)	5,079
Supplies	350	300	50	548
Other services and charges	570	316	254	607
Total Community Mental Health Allocation	<u>5,691</u>	<u>5,593</u>	<u>98</u>	<u>6,234</u>
 Senior Citizen Program:				
Personnel services	189,728	168,562	21,166	151,993
Supplies	2,041	2,532	(491)	2,059
Other services and charges	5,590	5,784	(194)	1,989
Total Senior Citizen Program	<u>197,359</u>	<u>176,878</u>	<u>20,481</u>	<u>156,041</u>
 State Home Care Service:				
Personnel services	29,575	28,235	1,340	29,247
Supplies	538	561	(23)	655
Other services and charges	1,860	1,307	553	1,806
Total State Home Care Service	<u>31,973</u>	<u>30,103</u>	<u>1,870</u>	<u>31,708</u>
 MCCOA - Allocation to Senior Services:				
Personnel services	109,986	93,565	16,421	77,269
Supplies	1,400	1,289	111	1,169
Other charges and services	3,680	2,410	1,270	2,748
Total MCCOA - Allocation to Senior Services	<u>115,066</u>	<u>97,264</u>	<u>17,802</u>	<u>81,186</u>

City of Marquette, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006		2005	
	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Actual GAAP Basis
MCCOA - Allocation to Match Grants:				
Personnel services	\$ 28,232	\$ 28,115	\$ 117	\$ 19,872
Supplies	340	260	80	260
Other charges and services	1,380	719	661	816
Total MCCOA - Allocation to Match Grants	<u>29,952</u>	<u>29,094</u>	<u>858</u>	<u>20,948</u>
TOTAL SOCIAL SERVICES	<u>380,041</u>	<u>338,932</u>	<u>41,109</u>	<u>296,117</u>
RECREATION AND CULTURE:				
Parks and Recreation Administration:				
Personnel services	280,790	267,828	12,962	263,704
Supplies	18,601	16,975	1,626	16,427
Other services and charges	149,304	115,050	34,254	178,294
Capital outlay	75,000	-	75,000	-
Total Parks and Recreation Administration	<u>523,695</u>	<u>399,853</u>	<u>123,842</u>	<u>458,425</u>
 Shiras Pool:				
Personnel services	17,200	13,388	3,812	16,490
Supplies	6,500	4,411	2,089	3,265
Other services and charges	8,050	7,773	277	6,913
Total Shiras Pool	<u>31,750</u>	<u>25,572</u>	<u>6,178</u>	<u>26,668</u>
TOTAL RECREATION AND CULTURE	<u>555,445</u>	<u>425,425</u>	<u>130,020</u>	<u>485,093</u>
SPECIAL ASSESSMENTS:				
Other Services and charges	17,000	-	17,000	-
TOTAL SPECIAL ASSESSMENTS	<u>17,000</u>	<u>-</u>	<u>17,000</u>	<u>-</u>
DEBT SERVICE:				
Principal payments	80,740	80,702	38	76,265
Interest payments	23,300	23,302	(2)	26,918
TOTAL DEBT SERVICE	<u>104,040</u>	<u>104,004</u>	<u>36</u>	<u>103,183</u>
TOTAL EXPENDITURES	<u>13,894,010</u>	<u>12,932,026</u>	<u>961,984</u>	<u>18,253,929</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,582,393</u>	<u>3,534,719</u>	<u>(47,674)</u>	<u>(2,696,638)</u>

City of Marquette, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006			2005
	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Actual GAAP Basis
OTHER FINANCING SOURCES (USES):				
Issuance of debt	\$ -	\$ -	\$ -	\$ 5,000,000
Transfers In:				
Major Street Fund	-	-	-	-
Cemetery Trust Fund	18,000	19,807	1,807	9,139
Total Operating Transfers In	18,000	19,807	1,807	9,139
Transfers (Out):				
Major Street Fund	(689,040)	(803,553)	(114,513)	(309,761)
Local Street Fund	(251,937)	(130,659)	121,278	(682,098)
MSHDA Homeowner Repair Fund	-	-	-	(31,330)
MSHDA Downtown Rental Fund	-	(27,463)	(27,463)	-
Lakeview Arena Fund	(217,746)	(261,630)	(43,884)	(242,281)
1998 Building Authority Lakeview Arena Debt Fund	(121,975)	(121,975)	-	(127,487)
Spring Street Debt Fund	(82,874)	(82,873)	1	(82,873)
Founders Landing Debt Fund	(933,400)	(297,204)	636,196	(300,727)
Forestland Debt Fund	(440,000)	(468,998)	(28,998)	-
Construction Fund	-	(291,885)	(291,885)	(10,528)
Stormwater Fund	(748,000)	(747,757)	243	-
Intermodal Transportation Terminal Fund	(69,500)	(64,665)	4,835	(379,951)
Marina Fund	(45,921)	(30,555)	15,366	(40,565)
Total Transfers (Out)	(3,600,393)	(3,329,217)	271,176	(2,207,601)
TOTAL OTHER FINANCING SOURCES (USES)	(3,582,393)	(3,309,410)	272,983	2,801,538
CHANGE IN FUND BALANCE	-	225,309	225,309	104,900
Fund balance, beginning of year	4,140,355	4,140,355	-	4,035,455
FUND BALANCE, END OF YEAR	\$ 4,140,355	\$ 4,365,664	\$ 225,309	\$ 4,140,355

City of Marquette, Michigan

MAJOR STREET AND TRUNKLINE FUND

COMPARATIVE BALANCE SHEET

June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$ 2,486,027	\$ -
Due from State	<u>171,354</u>	<u>160,826</u>
TOTAL ASSETS	<u>\$ 2,657,381</u>	<u>\$ 160,826</u>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 2,685	\$ 5,416
Due to other funds	<u>168,669</u>	<u>155,410</u>
TOTAL LIABILITIES	<u>171,354</u>	<u>160,826</u>
 Fund Balance	<u>2,486,027</u>	<u>-</u>
TOTAL FUND BALANCE	<u>2,486,027</u>	<u>-</u>
 TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,657,381</u>	<u>\$ 160,826</u>

City of Marquette, Michigan

MAJOR STREET AND TRUNKLINE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006		2005	
	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Actual GAAP Basis
REVENUES:				
Federal sources	\$ 339,661	\$ 2,486,027	\$ 2,146,366	\$ -
State sources	1,191,000	1,189,406	(1,594)	1,212,351
TOTAL REVENUES	1,530,661	3,675,433	(1,594)	1,212,351
EXPENDITURES:				
Highways, Streets and Bridges:				
Routine maintenance	449,805	437,571	12,234	383,208
Winter maintenance	552,300	449,841	102,459	537,861
State trunkline	95,610	53,516	42,094	108,692
Administration	262,380	259,632	2,748	260,457
Total Highways, Streets and Bridges	1,360,095	1,200,560	159,535	1,290,218
Capital Outlay - Construction:				
Construction	141,352	40,384	100,968	4,193
Total Capital Outlay - Construction	141,352	40,384	100,968	4,193
Debt Service:				
Principal retirement	293,445	293,443	2	279,899
Interest and fiscal charges	51,540	51,532	8	64,149
Total Debt Service	344,985	344,975	10	344,048
TOTAL EXPENDITURES	1,846,432	1,585,919	260,513	1,638,459
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(315,771)	2,089,514	258,919	(426,108)
OTHER FINANCING SOURCES (USES):				
Transfers in:				
General Fund	689,040	803,554	114,514	309,761
Construction Fund	-	-	-	-
Transfers (out):				
General Fund	-	-	-	-
Construction Fund	(373,269)	(407,041)	(33,772)	(54,365)
TOTAL OTHER FINANCING SOURCES (USES)	315,771	396,513	80,742	255,396
CHANGE IN FUND BALANCE	-	2,486,027	339,661	(170,712)
Fund balance, beginning of year	-	-	-	170,712
FUND BALANCE, END OF YEAR	\$ -	\$ 2,486,027	\$ 339,661	\$ -

City of Marquette, Michigan
LOCAL STREET FUND
COMPARATIVE BALANCE SHEET
 June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$ 149,384	\$ -
Due from State	<u>56,459</u>	<u>119,998</u>
TOTAL ASSETS	<u><u>\$ 205,843</u></u>	<u><u>\$ 119,998</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 852	\$ 1,362
Due to other funds	<u>55,607</u>	<u>118,636</u>
TOTAL LIABILITIES	<u>56,459</u>	<u>119,998</u>
 Fund Balance	<u>149,384</u>	<u>-</u>
TOTAL FUND BALANCE	<u>149,384</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 205,843</u></u>	<u><u>\$ 119,998</u></u>

City of Marquette, Michigan

LOCAL STREET FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006			2005
	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Actual GAAP Basis
REVENUES:				
Federal sources	\$ -	\$ 551,536	\$ 551,536	\$ -
State sources	548,000	581,731	33,731	585,853
TOTAL REVENUES	<u>548,000</u>	<u>1,133,267</u>	<u>585,267</u>	<u>585,853</u>
EXPENDITURES:				
Highways, Streets and Bridges:				
Routine maintenance	413,400	410,804	2,596	410,225
Winter maintenance	472,200	373,381	98,819	556,620
Administration	265,272	263,199	2,073	263,424
Total Highways, Streets and Bridges	<u>1,150,872</u>	<u>1,047,384</u>	<u>103,488</u>	<u>1,230,269</u>
Capital Outlay - Construction:				
Construction	359,960	113	359,847	682
Total Capital Outlay - Construction	<u>359,960</u>	<u>113</u>	<u>359,847</u>	<u>682</u>
Debt Service:				
Principal retirement	31,560	31,557	3	30,101
Interest and fiscal charges	5,545	5,542	3	6,899
Total Debt Service	<u>37,105</u>	<u>37,099</u>	<u>6</u>	<u>37,000</u>
TOTAL EXPENDITURES	<u>1,547,937</u>	<u>1,084,596</u>	<u>463,341</u>	<u>1,267,951</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(999,937)</u>	<u>48,671</u>	<u>1,048,608</u>	<u>(682,098)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in- General Fund	999,937	130,659	(869,278)	682,098
Transfers (out) - Construction Fund	-	(29,946)	(29,946)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>999,937</u>	<u>100,713</u>	<u>(899,224)</u>	<u>682,098</u>
CHANGE IN FUND BALANCE	-	149,384	149,384	-
Fund balance, beginning of year	-	-	-	-
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ 149,384</u>	<u>\$ 149,384</u>	<u>\$ -</u>

City of Marquette, Michigan
CONSTRUCTION FUND
COMPARATIVE BALANCE SHEET
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$ 56,404	\$ 888,552
Accounts receivable	<u>344,526</u>	<u>344,526</u>
TOTAL ASSETS	<u><u>\$ 400,930</u></u>	<u><u>\$ 1,233,078</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	<u>\$ 42,674</u>	<u>\$ 420,069</u>
TOTAL LIABILITIES	<u>42,674</u>	<u>420,069</u>
 Fund Balance	<u>358,256</u>	<u>813,009</u>
TOTAL FUND BALANCE	<u>358,256</u>	<u>813,009</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 400,930</u></u>	<u><u>\$ 1,233,078</u></u>

City of Marquette, Michigan

CONSTRUCTION FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2005

	2006		2005	
	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Actual GAAP Basis
REVENUES:				
State and Federal sources	\$ 1,497,000	\$ 547,762	\$ (949,238)	\$ 32,000
Investment income	-	63,416	63,416	58,079
Private sources	43,611	-	(43,611)	157,474
TOTAL REVENUES	<u>1,540,611</u>	<u>611,178</u>	<u>(929,433)</u>	<u>247,553</u>
EXPENDITURES:				
Capital Outlay:				
Public works	2,000,561	1,282,772	717,789	2,315,093
Highways, streets and bridges	5,351,709	512,031	4,839,678	220,621
TOTAL EXPENDITURES	<u>7,352,270</u>	<u>1,794,803</u>	<u>5,557,467</u>	<u>2,535,714</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,811,659)</u>	<u>(1,183,625)</u>	<u>4,628,034</u>	<u>(2,288,161)</u>
OTHER FINANCING SOURCES (USES):				
Issuance of debt	-	-	-	-
Transfers in:				
General Fund	326,733	291,885	(34,848)	10,528
Major Street Fund	379,965	407,041	27,076	54,365
Local Street Fund	49,000	29,946	(19,054)	-
Stormwater Utiltiy Fund	1,470,304	-	(1,470,304)	-
Water & Sewer Fund	1,915,720	-	(1,915,720)	-
TOTAL OTHER FINANCING SOURCES	<u>4,141,722</u>	<u>728,872</u>	<u>(3,412,850)</u>	<u>64,893</u>
CHANGE IN FUND BALANCE	<u>(1,669,937)</u>	<u>(454,753)</u>	<u>1,215,184</u>	<u>(2,223,268)</u>
Fund balance, beginning of year	<u>813,009</u>	<u>813,009</u>	<u>-</u>	<u>3,036,277</u>
FUND BALANCE, END OF YEAR	<u><u>\$ (856,928)</u></u>	<u><u>\$ 358,256</u></u>	<u><u>\$ 1,215,184</u></u>	<u><u>\$ 813,009</u></u>

City of Marquette, Michigan

NONMAJOR GOVERNMENTAL FUNDS

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

SPECIAL REVENUE FUNDS

The function of the Special Revenue Funds is to record revenue and expenditures for specific functions or activities within restrictions imposed by City Charter, ordinances, resolutions and/or Federal and State statutes. The modified accrual basis of accounting is used in recording Special Revenue Fund transactions.

ENVIRONMENTAL PROTECTION FUND: To account for the State of Michigan Site Reclamation Grant to be used for the environmental clean-up of City owned property at the corner of Washington and McClellan.

CRIMINAL JUSTICE TRAINING FUND: To account for the funds received from the State of Michigan for the purpose of ongoing training in the police department.

MSHDA DOWNTOWN RENTAL FUND: To account for the expenditures and revenues associated with the Michigan State Housing Development Authority Downtown Rental grant.

LAKEVIEW ARENA FUND: To record revenues and expenditures associated with the operation of the Lakeview Arena facility.

DEBT SERVICE FUNDS

The function of the Debt Service Funds is to account for the accumulation of resources and payment of general obligation principal and interest from the governmental resources. The modified accrual basis of accounting is used in recording Debt Service Fund transactions.

1998 BUILDING AUTHORITY MUNICIPAL CENTER DEBT SERVICE FUND: This fund was established in 1999 to account for the retirement of the 1998 Building Authority Refunding Bonds. These bonds, totaling \$4,535,000, were issued to advance refund a portion of the 1991 Building Authority Bonds.

1998 BUILDING AUTHORITY LAKEVIEW ARENA DEBT SERVICE FUND: This fund was established in 1999 to account for the retirement of the 1998 Building Authority Bonds – Lakeview Arena. These bonds, totaling \$1,000,000, were issued for the purpose of defraying the cost of renovating, constructing, furnishing, and equipping improvements to the existing Lakeview Arena building.

2003 FOUNDERS LANDING DEBT SERVICE FUND: This fund was established in 2004 to account for the retirement of the 2003 General Obligation Bonds. These bonds, totaling \$3,935,000, were issued for the purpose of reimbursing the City for certain costs relating to the acquisition of waterfront property for the City's park system, and paying the costs of designing, engineering, acquiring, preparing, constructing and equipping various park improvements.

2004 SPRING STREET DEBT SERVICE FUND: This fund was established in 2004 to account for the annual payments on the State Infrastructure Bank Note. This note was originally issued for \$1,243,100 for the purpose of financing transportation infrastructure improvements through the County Road (CR) 550 Flood Repair and Spring Street Reconstruction project.

FOREST LAND DEBT SERVICE FUND: This fund was established in 2005 to account for the annual payments on the Forest Land property purchase. This note was originally issued for \$5,000,000 for the purpose of financing property to be used for a recreation trail network and possible development.

PERMANENT FUNDS

The function of Permanent Funds is to account for funds where only the interest earnings may be used. The principal cannot be spent. The accrual basis of accounting is used in recording Permanent Fund transactions.

CEMETERY FUND: This fund is used to account for monies received for care of cemetery lots. The principal amount must be maintained intact and invested. Interest earnings are used to offset the City's cost of the cemetery maintenance.